Dayton Hudson Corporation 1973 Annual Report

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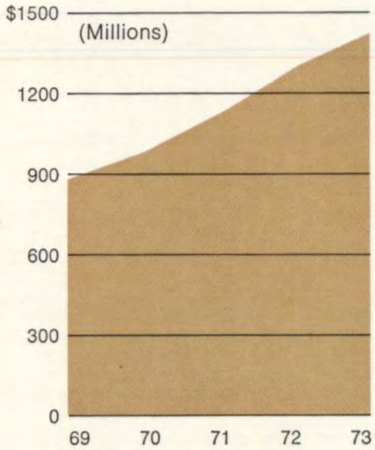
Cover

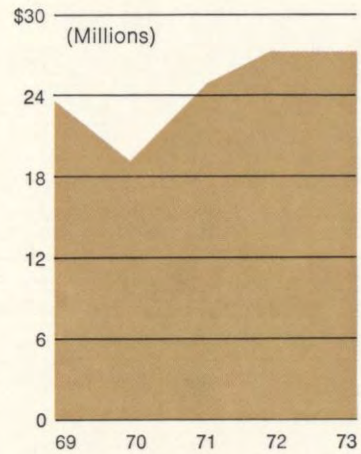
Clockwise (from lower right): Ready-to-wear merchandising at Hudson's; imported goods at Dayton's; Crystal Room fashion at Hudson's. Dayton Hudson Corporation operates its Retail business in 35 states through these and other department stores, low-margin stores and specialty stores. Through its Real Estate business, it also owns, develops and manages regional shopping centers, commercial properties and office buildings.

Consolidated

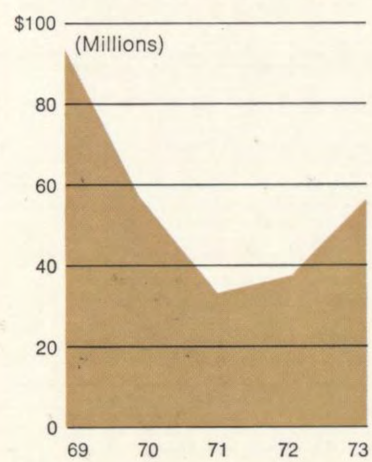
REVENUES



NET EARNINGS

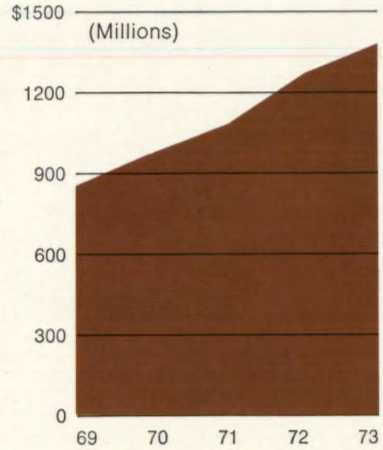


CAPITAL EXPENDITURES

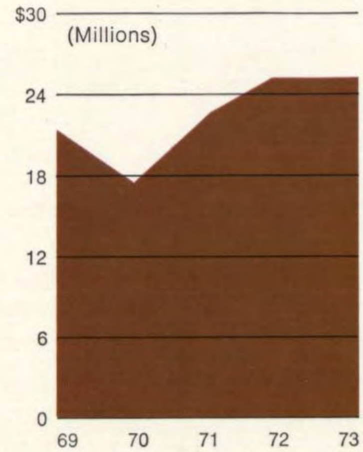


Retail

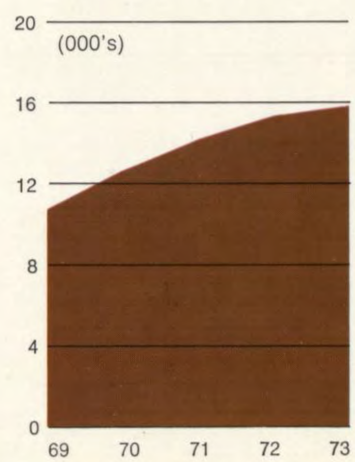
REVENUES



NET EARNINGS

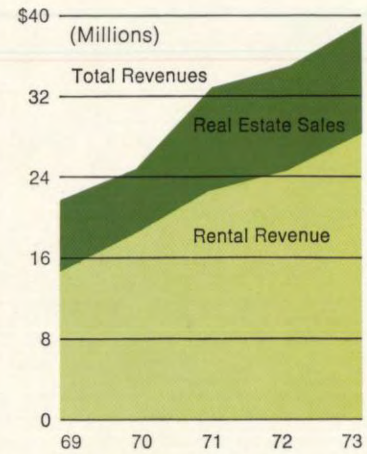


TOTAL SQUARE FEET

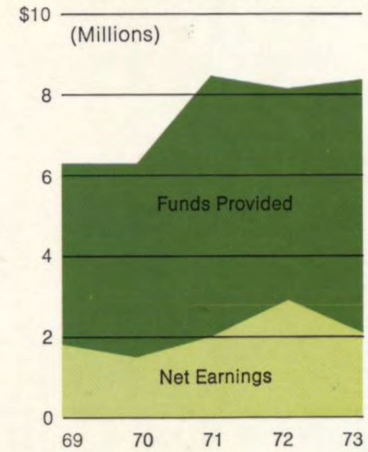


Real Estate

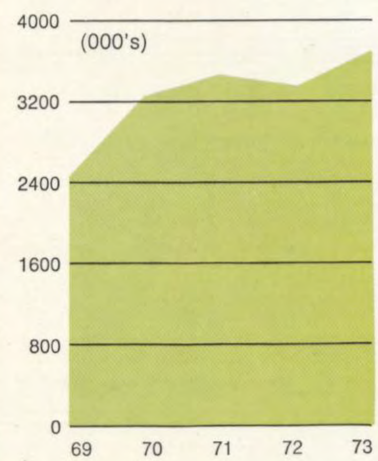
REVENUES



FUNDS PROVIDED BY OPERATIONS AND NET EARNINGS



GROSS LEASEABLE SQ. FT.



Highlights

Consolidated	1973 52 Weeks Ended February 2, 1974	1972 53 Weeks Ended February 3, 1973
Revenues	$ 1,407.3	$ 1,297.4
Net Earnings	$ 27.3	$ 27.5
Per Common Share		
Earnings Before Extraordinary Items	$ 1.70	$ 1.74
Extraordinary Items, Net	—	(.04)
Net Earnings	$ 1.70	$ 1.70
Cash Dividends	$ .54	$ .52
Number of Shareholders	*11,576*	*9,628*

Retail

Revenues	$ 1,369.5	$ 1,262.8
Net Earnings	$ 25.2	$ 25.3*
Earnings Per Share Contribution	$ 1.57	$ 1.56*
Funds Provided by Operations Before Changes in Long-Term Debt	$ 47.6	$ 47.5*
Number of Stores	*263*	*211*
Retail Square Footage (000)	*15,802*	*15,326*

Real Estate

Net Earnings	$ 2.1	$ 2.9
Earnings Per Share Contribution	$ .13	$ .18
Funds Provided by Operations Before Changes in Long-Term Debt	$ 8.2	$ 8.1
Gross Leaseable Square Feet (000)	*3,649*	*3,350*

All dollars in millions, except per share amounts

*Amounts are before extraordinary items

To Our Shareholders:

Dayton Hudson Corporation achieved record sales of $1,407,256,000 in 1973, an increase of 8.5 percent. Net earnings were $1.70 per share, about even with those of 1972 and short of our projections.

Inflation in the cost of goods sold reduced our earnings by 28 cents per share in 1973, as compared with 9 cents in 1972. These amounts were calculated from the increase in the appropriate Bureau of Labor Statistics index used in determining the value of our year-end LIFO inventory.

The LIFO (last-in, first-out) method used by Dayton Hudson and some other retailers has the effect of eliminating inflationary effects from earnings and from the inventory value. Thus, profit and balance sheet inventory values are stated on a conservative basis for both financial and tax reporting purposes.

Retail earnings—which bear all of the LIFO adjustment—were $1.57 per share in 1973, compared with $1.56 a year earlier. On a comparable 52-week basis, our Retail sales increased 10 percent in 1973.

The strongest individual performance within our Retail business was turned in by our largest operating company, Hudson's. It led the Corporation in profit growth, becoming our largest profit contributor by a wide margin. Hudson's performance, plus strong sales increases in our total department stores group, demonstrates the opportunities for further growth in our area of major investment.

Target succeeded in first slowing and then halting the profit decline that began in 1972—this despite the adverse impact of high markdowns as part of an extensive inventory-reduction program. Fourth-quarter results were up from a year earlier. Target is concentrating on its original low-margin formula—quality and fashion at a price, dominant selections, everyday rightness, service where necessary. It brought its inventory into line; it strengthened its merchandise organization; it tightened expense control. Looking ahead, it is focusing expansion plans in those regional markets where it is currently operating most profitably.

Among our specialty stores, Dayton Hudson Booksellers emerged as one of the Corporation's significant growth areas. It continued its profit growth in 1973 while increasing its base from 80 to 121 stores. We plan to continue this aggressive program of expansion in 1974.

While the primary goal of our Retail operations is the production of reportable earnings, the performance measures we apply to our Real Estate business are quite different. Our Real Estate operations are managed primarily for

the generation of cash flow, which is highlighted in this report as "funds provided by operations." In 1973, funds provided by operations totaled $8.2 million, compared with $8.1 million in 1972. Income and funds provided from our operating properties alone (shopping centers and office buildings) increased in 1973. But this increase was more than offset by higher development expense and a decline in gains from land holdings; land sales were below expectations as a result of the tight money market. These same factors reduced Real Estate earnings to 13 cents per share in 1973, compared with 18 cents in 1972.

Dividends from Real Estate to finance growth of our Retail businesses totaled $8.9 million in 1973 and $9.7 million in 1972.

We expect 1974 to be a particularly challenging year for retailers. Consumer spending should continue to rise, though not as rapidly as in 1973. Energy shortages, inflation, changing consumer demands—all of these will have an impact on the way the consumer spends.

Our priority efforts at Dayton Hudson have been to strengthen our management team, tighten expense controls, fine-tune our base businesses and concentrate on the fundamentals of retailing. Our companies are well positioned to serve their customers in an energy-short economy—both in terms of their physical locations and their capacity to provide one-stop shopping. The primary strength of our merchandising organizations lies in their ability to adapt quickly to changing consumer demands.

Since 1967, we have brought together 18 separate companies to form what we believe to be a logical and cohesive Retail and Real Estate organization. It is logical because it is well suited to the demographic changes of the seventies, and because it offers the kind of opportunities to which our management can best be applied. It is cohesive because of a merchandising philosophy that emphasizes dominant selection, quality and fashion. We have yet to complete the task of translating that philosophy into fact throughout all of our operations. But as each of these companies matures and develops its capacity to fulfill this mission we are confident that we will grow and earn with the best in the industry.

In a series of interviews on the pages that follow, we have challenged representative members of our management team to discuss candidly the businesses they manage. In the process, we believe, they provide a closer perspective of the Corporation—its design, its thrust, its opportunities.

Bruce B Dayton

Bruce B. Dayton
Chairman of the Board

K N Dayton

K. N. Dayton
President

Joseph L. Hudson Jr.

Joseph L. Hudson, Jr.
Vice Chairman

April 12, 1974

Bruce B. Dayton

K. N. Dayton

Joseph L. Hudson, Jr.

Junior ready-to-wear at Hudson's.

William A. Andres,
Executive Vice President.

As Executive Vice President of Retail Operations, William A. Andres oversees 10 retail companies operating more than 260 stores, ranging from small specialty stores to some of the largest department stores in the United States. In this interview, Mr. Andres discusses the management and merchandising philosophies that give direction to this diversity.

Managing Merchants: 'Something In It for the Customer'

As you see it, what is the thrust of your job as Executive Vice President of Retail Operations?

Andres: To challenge, counsel and motivate the chief executive officers of our operating companies. I would say developing merchandising strategy is their job. Mine is seeing that we've got top merchants within these companies, giving them the freedom to merchandise to the environments in which they're doing business . . . and holding them accountable for their results.

What do you mean by "merchandising strategy"?

Andres: The concept of their business—their merchandising approach. There has to be something in it for the customer. You can't just be a "me too" organization. There has to be something that sets you apart from your competition.

What sets your stores apart?

Andres: It's difficult to generalize about operations as diverse as ours. But I would say dominant selections of merchandise, emphasis on fashion, assurance of quality. Many retailers offer one or two of these. Few emphasize all three as we do.

How does Dayton Hudson differ from other national retailers in over-all strategy?

Andres: Basically, we are striving to offer an attractive alternative to the merchandisers that apply a highly standardized retailing formula in all of their markets. We view each of our companies as an integral part of the regional market it serves, with each sharply attuned to the particular needs and trends in its market.

How would you characterize the success of this approach so far?

Andres: Our results to this point in terms of growth in retail space and sales tell me that we've got a group of strategies that are highly acceptable to customers. Our profits tell me that we haven't made the transition from single-unit to multi-unit organizations nearly as well as we would like. Target has grown from 11 stores to 46 stores in five years. Diamond's has tripled its stores. Hudson's and Dayton's have expanded into other states... These companies certainly don't lack for merchandising and fashion talent. But we haven't yet demonstrated a *consistent* ability to spread our merchandising and management expertise over a large number of units. So this is an area of potential improvement for us; it's a problem that's within the scope of each operating company to solve.

Department stores are still the largest part of your business. What is the outlook for them?

Andres: I think Hudson's dramatic turnaround demonstrates the potential we have in department stores. Each of our department store companies is a leading fashion retailer in its market... The growth of these regional chains will be the key trend in department store development over the next 10 years.

How about low-margin stores?

Andres: There will always be great opportunities for a retailer who can distribute quality merchandise at lower margins than his competitor, and that's the challenge in low-margin retailing today. I say quality, because that's the area where we'll concentrate at Dayton Hudson.

And specialty stores?

Andres: I think specialty stores will be a strong area of growth in the seventies. Look at the impact specialization has had in the magazine field: the ski magazines, the photo magazines—a magazine for nearly every special interest. We're beginning to see the same sort of thing in retailing. Our bookstores and consumer electronics stores are in tune with this. And I think Dayton Hudson will continue to be venturesome in the specialty area, though perhaps not as much in the near term.

What are you most concerned about within your area of responsibility?

Andres: People. The placement of them. Their motivation. Most of my time is spent interacting with people—counseling, challenging, asking questions, trying to get a feel for the business. It's something that goes back to my early days as a buyer at Dayton's. I felt then that a successful buyer should listen to the sales people, listen to the resources, listen to the customers and the market representatives, read the trade journals, then go over into a corner and make up his own mind about what he should buy. I think that when a buyer stops listening and looking, he's in trouble. I guess I've carried that up with me. I try to talk to buyers, sales people, customers—to hear what people are saying about our various businesses.

What do you do with all this information?

Andres: It gives me the feel for these businesses that I need to challenge, counsel and motivate the people who run them. I stress my role in this way, because I believe the orientation of each individual operating company should be toward the environment in which it does business, not toward the Corporation. The most successful chief executive officers in my opinion are those who have a clear idea of what they want to do and great commitment to it, who are willing to carry the flag for what they believe in and will try to move heaven and earth to make it happen. Those who look *out* to their own environment and don't spend too much time looking back at the Corporation.

Department Stores

Crystal Room at Hudson's, Eastland.

From left: Calvin Rowley, Joseph Hudson, and Edwin Roberts.

Hudson's: ■ *Northland and Eastland stores remodeled to expand fashion areas.* ■ *Ann Arbor store to open in mid-1974; Grand Rapids opening set for mid-1975.*

Dayton's: ■ *Store in Fargo, North Dakota, opened in August—first Dayton's outside Minnesota.* ■ *Eighth Dayton's store scheduled to open in August 1974, in Ridgedale Shopping Center west of Minneapolis.*

Diamond's: ■ *One store opened in 1973, in Phoenix's MetroCenter.* ■ *Two 1974 openings—in Scottsdale and Tucson.*

Lipman's: ■ *Sixth store in Oregon opened in November in Portland's Washington Square.* ■ *Eastport branch store remodeled.*

John A. Brown: ■ *Store in Oklahoma City's Crossroads Mall scheduled for August 1974 opening.* ■ *Downtown store will be closed to make way for a major retail development project.*

Hudson's Fashions New Life From Old Strength

Joseph L. Hudson, Jr., Chairman and Chief Executive of Hudson's department stores, describes his top management team as an "executive partnership." The other members are Edwin G. Roberts, President, and Calvin E. Rowley, Executive Vice President, Financial Operations. In this interview, Messrs. Hudson and Roberts describe what has happened at Hudson's since this partnership was formed.

Hudson's began to show good improvement in its performance in 1972. What happened in 1973?

Hudson: There is no other way to say it—we had an outstanding year at Hudson's. We went into 1973 with some extremely optimistic goals, and we topped them right down the line—sales, gross margin, profits. Profits were up 58 percent on top of

a 70 percent improvement in 1972.

The Detroit economic environment was quite strong during much of the year. How much did that have to do with your performance?

Hudson: It didn't hurt. But we appear to have improved our share of the department store market, too, with increases in the third and fourth quarters. To do that, we had to have excellent merchandising performance.

Roberts: I think it's significant that we could post a very strong sales increase in the important December period—when the auto cutbacks were supposed to be weakening the economy. Detroit was supposedly shaken by the news. Nevertheless, we had one of our greatest sales increases during this holiday period, and our momentum has continued into the early months of 1974.

Hudson: It's no coincidence that our improvement matches perfectly the time that our three-man executive partnership has been operating. Ed Roberts joined us mid-year in 1972 with exactly the kind of merchandising expertise and energy we needed. Cal Rowley came in at about the same time to strengthen our control functions and expense disciplines.

Can you summarize what this partnership has done during this period?

Hudson: It started on many fronts at once. We changed our merchandise mix by concentrating on the growth of our high-margin women's and men's fashion businesses and by quietly de-emphasizing the less profitable classifications of the home division—to put our money where our profit is, or should be. That doesn't mean we're giving up on the home business, just emphasizing its more profitable classifications. We want our fashion thrust to be in evidence here as well as in our soft lines. We're aiming just a notch higher in the quality of all the merchandise we carry. While we will never be a specialty store, we will use specialty store techniques in seasonal timing, merchandise presentation and courteous personalized service.

All of this has been partnered with Cal Rowley's programming—a more disciplined systems analysis approach to expense control, asset management and goal planning. Much of the payoff on this is still ahead of us, but we are already seeing significant improvement in expense posture. The asset management program is carefully eliminating unprofitable inventories and excess properties. We are turning our inventory 20 percent faster than last year.

Did you expect to get a payoff as quickly as you apparently have?

Roberts: We knew the potential of Hudson's in this market if we did everything right. The resources were here. Hudson's had the real estate—meaning the greatest locations and physical plants in our trading area. It had the human resources—good people, who needed to be augmented only slightly. We were pretty confident that if we put it all together quickly, we would get an immediate response. The city was hungry for us to be right.

Where do you go from here?

Roberts: I think our major challenge now is to maintain the excitement of the turnaround. The second is to fine-tune our merchandising so that we become even faster and more dramatic in merchandise trending. The past two years were mostly putting everything in place, restructuring the departments and restructuring our market to grade up—to rearrange buyers, rearrange departments on the floor, and add fashion, add specialty looks. A great department store must have a specialty store layer on top of it to give it glamour, excitement, interest. We're in the midst of doing all that right now. We haven't licked all of our problems yet, but there's no question that our people have begun to think in terms of making Hudson's the greatest store in the world.

Hudson: I might add that because we have regained our profit base, Hudson's is back in a growth posture. We are, in fact, one of the Corporation's major growth vehicles at this point. We have stepped-up plans for branch openings to the extent we will be opening seven stores in the next five years.

What is the outlook for Hudson's downtown store?

Hudson: Realistically, we don't expect any increase in sales volume in the short term. The degree of commitment to Downtown Detroit by the private sector is quite remarkable. We hope that this will stabilize the market in the long term. But the thing to remember is that because of our over-all expansion, the downtown store now accounts for less than 20 percent of Hudson's total volume—which means that we're no longer as dependent upon our downtown volume as many other department store companies are. Moreover, the downtown store produced a modest profit in 1973, so we don't look upon it as a drag on the over-all Hudson operation. It's a soft spot, perhaps, but it is no longer a loss situation.

Any other factors in your performance that were significant?

Roberts: Joe mentioned our improvements in merchandise presentation and customer service. We called 1973 "The Year of the Customer," and we began by defining what the customer expects Hudson's to be—an exciting, fashion and service-oriented quality department store. Customer service is a major part of this, and it remains one of our major challenges this year. We want to be known as the community stronghold for consumerism, or "customerism" as we call it.

Hudson: We're pretty proud of Hudson's today—the way it looks, the way it is responding to customers, and most of all the way the customers are responding to us.

Low Margin Stores

Target ■ *Opened ninth store in the Minneapolis-St. Paul market.*
■ *Closed small leased store in Fort Collins, Colorado.*

Lechmere: ■ *Renovated Springfield, Massachusetts, store to test new merchandising concept.*

Getting Back On Target

Stephen L. Pistner, President, Target Stores, Inc.

After nearly a decade of growth, Target experienced a profit decline in 1972. Halting that decline was the first challenge faced by Stephen L. Pistner when he became President of Target in April of 1973. Target met that challenge, but there are others ahead, as Mr. Pistner explains in this interview.

At a time of intense competitive pressure in the discount industry, what is Target doing to regain its momentum?

Pistner: First, we've faced up very directly to the problems we have, taking our lumps where necessary and getting a solid base of people and systems set before we move on. We have a new management team, which is in the process of bringing together the stores and buying organizations—and all other key elements of the company—into a true merchandising partnership. In this we are bringing to bear a technique we call management by constructive confrontation—something that gives us the best assessment of our problems and opportunities that we've ever had.

Second, we are pushing hard on the original Target formula of value and convenience.

Third, we are in the early stages of developing a new kind of low-margin format that we believe can be every bit as significant to the company's growth as our original strategy was in the 1960s.

What do you mean by "taking our lumps"?

Pistner: During 1973 we took heavy markdowns to eliminate older merchandise, to clear the decks. As a result, inventories at Target are dramatically cleaner than a year ago. *Dramatically*. We entered 1974 with an essentially balanced inventory.

Would you explain what you mean by "management by constructive confrontation"?

Pistner: Constructive confrontation is simply a philosophy that says a

management team that faces its problems openly and directly will be able to solve them up front when it has many options. It's a philosophy that says: Don't come to me at the last point in the road and tell me why we have to follow a course because we no longer have any choices. Bring it up early. In exchange, we offer all the ideas and information the management team can generate. Confront the issues intelligently. Then tell us what your decision is, and your implementation date.

That's it: Facing the problems early, rather than denying they exist and allowing them to grow. You can't believe the number of options that we're already developing in certain areas in the short period that this team has been together.

Where do you see Target in the low-margin industry today, and what lies ahead?

Pistner: Target merchandise generally has been of higher quality than that of most discount stores. Usually when people make comparisons, they tell us there is a definite difference between a Target store and competing stores—generally having to do with being able to find more of what they want at Target. It's our feeling that this perception is accurate and should be perpetuated, even expanded.

This means doing better what we did well in the 1960s. It means increasing Target's ability to buy what the customer wants, and to show it and sell it more efficiently. The retail environment is changing. The economics of merchandising is changing. Most of all the consumer is changing. She has been telling us in many ways: "Help me to shop faster and easier. Do not insult my intelligence. Give me what I need, not what you think I need. Don't put more people in my path; give me more information. Have the merchandise there that you advertise. And back up the merchandise you sell in a more efficient and effective fashion."

We will do that. And we will do that in 1974.

For example?

Pistner: The visual impact on Target customers will be changing during the year. They should find more of what they previously expected to find in Target—an even broader assortment of fashion apparel, more depth, improved selection of name-brand hard goods. They should be able to shop more quickly and be able to find all key items on the shelves. Beyond that, they should get better service in those areas where they *want* service, because of better training of personnel.

Our shopping environment should be a very straightforward exercise in efficiency—giving the customer the right merchandise at the right price. Make it very easy to understand the pricing. Create excitement through the appeal of the merchandise itself, rather than some secondary method. Make sure it is good merchandise, and make the shopping adventure as quick and as effective as possible.

Are there any other new ideas that you can discuss?

Pistner: One approach that we're testing involves verticalizing certain departments. Verticalizing means taking an area of the business that traditionally has been the province of the specialty stores and declaring it a specialty business *within* your store. You put a manager in charge at headquarters and give him absolute responsibility and freedom to cross every line. We verticalized our jewelry departments in Minnesota in the second half of 1973 and got a 79-percent increase in jewelry sales. We are now testing this approach in the shoe business, and we will test it with others. But we don't believe it is an all-purpose philosophy. We believe it only applies as a merchandising and management technique in certain specialty areas where we can force feed the volume dramatically and improve profitability as a result.

How do you encourage ideas from within the organization?

Pistner: The best way to explain how our program is beginning to work is with an example: For the past several years we've known that the area of greatest concern on the part of our consumers was that they waited in line at the checkout lanes and could not be handled in a reasonable period of time. It was the major complaint. We met with the head cashiers—myself, a district manager and the vice president of stores. Rather than discuss a program in management that would resolve this problem, we asked the head cashiers not only what the problem was, but how they would resolve it. You know, in two hours they not only identified 98 percent of the problems, they also gave us several very basic solutions. As a result, we have begun a full-blown training program and are changing some procedures to relieve the pressure on the cashiers. This has begun to speed up the process and improve the relationship with the consumer.

Are you concerned about the impact of the energy crisis on your operations?

Pistner: Of course. But the location of Target stores is very good. They are located relatively close to most of the people who shop in them. The majority include grocery stores, and this becomes a primary advantage in an energy shortage—because it enables the consumer to combine her shopping efforts in a single stop.

Where do you see Target's future growth?

Pistner: There is a fundamental philosophy that Target will be a major factor in each of its markets. That's not yet true in all of them, but the economies all work in favor of having 10 stores in one market, rather than two stores in five markets. So at the moment we're not talking about expanding *out* of our markets. We're talking about expanding *within* our markets.

Specialty Stores

Dayton Hudson Booksellers:
■ *Opened 41 stores, increasing total to 121 in 33 states.*

Dayton Hudson Jewelers:
■ *Opened seventh Peacock store in Chicago market.* ■ *Remodeled downtown Peacock store in Chicago and downtown Caldwell store in Philadelphia.* ■ *Centralized buying and accounting functions.*

Team Central: ■ *Increased number of company-owned stores from 17 to 24; including franchised and partially owned stores, it had 107 units in 16 states at year end.* ■ *Introduced electronic purchasing and inventory system.*

Booksellers: Living Up To Its Name

Dayton Hudson's fastest-growing company is Dayton Hudson Booksellers, the largest component of its specialty store group and the second largest bookstore chain in the United States. At the end of 1973, Booksellers was operating 121 stores in 33 states. The story behind that growth—and the outlook for the future—is explored by the company's president, Bruce G. Allbright.

Only one other major retailer has ventured into bookselling on a large scale. What led Dayton Hudson to do it?

Allbright: The Corporation took a look at some demographics back in the mid-sixties and came to the conclusion that books *ought* to be a growing industry because of the rising affluence of the population, rising educational levels and the growth of the younger age groups.

Those three demographic traits are really characteristic of book readers: The 20-to-34 age group reads more than any other and is the most rapidly growing segment of our population. We know that book readership increases directly with income levels and educational attainment. Those trends were evident in the sixties, and we are expecting them to continue through the seventies. Looking back, I'd say the Corporation made a very wise strategic decision to get into the book specialty store business.

And that was from scratch with B. Dalton, Bookseller?

Allbright: Yes, in 1966. And later with Pickwick, the Southern California chain we acquired in 1968.

I feel one of the major accomplishments in the last two years has been to put them together and to take the best of each and apply it to the other. There is no question in my mind that both have benefited from this combination.

In what ways?

B. Dalton offered a very wide selection of titles—much more than the average bookstore. But Pickwick offered even more. Its strength was its image of *nothing but books*. We've carried that over now into B. Dalton, and apparently very successfully. We learned from Pickwick, for instance, to maximize the use of space by going all the way to the ceiling with books on the walls so that we get more stock per square foot. That also gives the stores a very booky look, which seems to appeal to the customers.

We've concentrated our merchandise offerings on books only. B. Dalton originally sold books and globes, records, greeting cards—and got into all kinds of other accessories really unrelated to books. In the last two years we have been purifying our stock mix so that we are 99 percent books. As we have thrown out all the other merchandise, it hasn't hurt our sales at all. On the contrary, our sales per store have improved.

The major Dalton strength, on the other hand, was its computer systems. We have successfully extended those to the Pickwick stores. And again, the results have been excellent.

Computer systems?

Allbright: We are the only company in the book retailing business to have our entire stock on computer inventory control. We know in headquarters every week the status of *every* title in *every* store. This was a part of B. Dalton's game plan from the beginning.

What advantage does it give you?

Allbright: Our major advantage is that we know what's selling on a timely basis. For instance, when *Alistair Cooke's America* came out last fall, most retailers bought it moderately. But the book took off. We could *see* immediately that it was selling better than we expected. And we stepped in quickly to make sure our stores were well supplied with the book right through Christmas. Most bookstores in the country ran short.

In what other ways do you differ from your competition?

Allbright: Well, both Pickwick and B. Dalton try to have the most complete bookstores—without question—in any market they are in. To put that in perspective—according to published reports, our primary competitors carry about 8,000 titles in their stores. We carry 30,000, and in some stores we have as many as 60,000. We have 80,000 on our system. We think we've got everything

that has a *chance* to sell. The major difference between us and most of our competitors is that we carry many more back-list titles—books that stay in print beyond their initial printing season, such as *Roget's Thesaurus,* dictionaries, classic literature... books that have a long life.

What in your view are the keys to a successful specialty bookstore business?

Allbright: First, a bookish atmosphere—a setting that makes any kind of book buyer feel at home... We use a concept we call organized clutter. We don't want everything so rigid and neat and sterile-looking that people would hesitate to pick up a book... It's got to say "touch me." Second is selection. We're committed to it—a major investment, a very wide assortment. And third, location. Suburban shopping centers provided the breakthrough for bookstores as far as locations were concerned. Now we see other opportunities emerging as well.

What do you see as your major challenge?

Allbright: The biggest challenge is to find sites for expansion and modify our basic approach so that we can be successful in smaller centers and markets than we aimed at originally. In addition to the closed mall we have been testing central business districts. In the last two years we have opened six downtown stores, and we have several more under lease.

You had 80 stores at the end of 1972 and opened 41 in 1973. Is that the type of annual expansion you anticipate?

Allbright: That's more than a 50-percent expansion in terms of stores, and I don't know many companies that have ever done that from as large a base as we had a year ago. No, I don't think we'll ever again expand at quite that rate on a percentage basis. But we do plan to open more stores in each of the next five years than we did in 1973.

Bruce G. Allbright, Jr., President, Dayton Hudson Booksellers.

What about the impact on profits from the costs of this kind of expansion in the next year or two?

Allbright: We expect to maintain our profit rate.

Even with all the pre-opening costs?

Allbright: Even with all the pre-opening costs. Our history to date has been that our profitability has grown as we've grown.

How do you get the people to sustain your expansion?

Allbright: That's one of our secrets. It has to do with the business we're in. We attract unusually well qualified people. They *want* to be in the book business. Some would not be in any business except the book business...We have a training program that has developed store-manager candidates at pace that matches our expansion.

Do you face any problems as a result of the paper and energy shortages?

Allbright: There are a lot of threats, but very little hard evidence yet. There *is* a paper shortage and we've had some titles that sold well and the publishers couldn't get paper in time to reprint them on a timely basis. And, therefore, we and the book publishers lost sales on those titles. We expect that will continue, or accelerate. There are other threats to operations—shorter hours, for example. That probably would affect business.

On the other hand, we see some positive implications for our product. Maybe we are being Pollyannish, but if people must stay home to conserve energy, we think they'll read more books.

Dayton Hudson Properties:
■ *Opened 14-story office building near Northland Center, Detroit.*
■ *Completed third wing of Southdale Medical Building, Minneapolis.* ■ *Started expansion and enclosure of Northland and Eastland Centers, Detroit.*
■ *Scheduled opening of Ridgedale Shopping Center west of Minneapolis for August 1974.*
■ *Announced plans for joint-venture development of regional shopping center in Oklahoma City.*

Real Estate: Building Our Own Future

Dayton Hudson Properties—the Corporation's real estate group—grew from a need to provide quality facilities for retail operations. It continues to provide that kind of support for the retail companies, but it has developed an identity and strategy uniquely its own. In this interview, Robert J. Crabb, President, explains the corporate real estate strategy and its advantages.

What kind of real estate operation is Dayton Hudson Properties?

Crabb: We're investment builders. We concentrate primarily on one phase of investment building—regional shopping centers. We also build and develop some office buildings and other commercial properties, but only as they relate to our shopping centers as a planned unit development.

How is an investment builder different from other real estate operations?

Crabb: Well, we build for investment rather than sale. We are involved in the entire process of developing a shopping center. We select location, design the center, find the tenants, seek the financing to mortgage our properties, act as manager of the center, and continue to own it.

What kind of shopping centers do you develop?

Crabb: Regional centers, which are a minimum of 500,000 square feet of leasable area. Nearly always they are anchored by at least two major department stores, including fashion department stores such as our own Dayton's or Hudson's, and the major retail chains such as Penney's or Sears.

Our other tenants—and we have up to 155 in a single center—represent a broad spectrum of apparel stores and other specialty shops, restaurants and services. By having a good diversification of stores, we assure shoppers of finding what they want in our centers.

What advantage does Dayton Hudson Properties have in developing regional shopping centers?

Crabb: For one thing, we have 20 years of experience. Twenty years ago, regional shopping centers were a brand new industry. We have a group of people in our organization who were pioneers in shopping center development—a tremendous resource of expertise. A second advantage is the willingness of our corporate management to recognize the unique characteristics of real estate development—that is, the long lead times involved, the capital intensive nature of the business, the high degree of leverage, the decision guidelines we've got to follow, and the entrepreneurial nature of our people.

Isn't a real estate company that owns and develops its own property generally a pretty risky business?

Crabb: The primary risk of owning commercial property is a failure to rent your space. Dayton Hudson Properties has little downside risk in this regard because most of our properties are supported by long term leases from tenants representing major, highly credit-worthy retail companies. These tenants alone provide a reliable, steady flow of income, enough to cover our fixed costs. There is also a protection against inflation since most of our rents include percentage rents based on sales and escalation clauses for taxes and utilities.

What will the energy crisis do to shopping centers?

Crabb: Our shopping centers are large diversified regional centers which can play an important role in coping with an energy shortage. The shopper can combine several shopping trips into one. It will be easier to car pool where many retail outlets are concentrated. But most important, public transit plans are taking into account major shopping centers as part of their systems.

How important are land sales to your operation?

Crabb: Land sales are a byproduct that results when we acquire more land than we ultimately use in our shopping center developments. We buy substantially more land than we're going to use for the shopping center so that we can ensure the life quality of the surroundings. Eventually, we hope to capitalize on this excess land, because once we have developed the shopping center, the peripheral property takes a good jump in value.

What is the benefit of having a retail company and real estate company in the same corporation?

Crabb: First of all, Dayton Hudson Properties generates cash for use in the expansion of the retail business. That's very important because it means the retail companies can expand without having to go outside as often to raise funds.

The second reason we are a valuable partner to the retail group is the advantage of providing locations for the department stores and specialty stores. The reason that Dayton Hudson originally got into the real estate business almost 20 years ago was that nobody in Detroit or Minneapolis was experienced in designing and building a shopping center comparable to a Northland

Robert J. Crabb, President, Dayton Hudson Properties, at Ridgedale Shopping Center under construction west of Minneapolis.

or Southdale. So Hudson's and Dayton's built them. That was the beginning of our strategy of owning branch stores in shopping centers we also own. The opportunity for the department stores then and now is allowing the retail group to maintain the initiative in their communities for expansion and not having to wait for a developer to come along. The result is much greater influence over the location and timing of our department-store expansion.

What is the direction of Dayton Hudson Properties in the future?

Crabb: The plans of our operating division are geared toward substantial expansion of shopping center space in our present markets—Detroit and the Twin Cities; in other cities where we have Dayton Hudson Corporation stores, such as Tulsa, Phoenix, Las Vegas, and Oklahoma City; and in other markets where we plan to develop shopping centers with other major tenants.

Over the next five years, we plan to open 11 more regional shopping centers, either on a wholly owned or joint-venture basis.

We also see a very significant opportunity in the future for development of urbanized areas. We are currently in the planning stages for a major commercial real estate development for a downtown location.

Estimated Current Value of Real Estate Properties

In the management of our Real Estate properties we seek to increase Operating Income* through increased rental revenues and improved efficiency of operations. Improvement in Operating Income can improve the market value of the property for sale or financing purposes.

Generally accepted accounting principles primarily reflect historical cost and accumulated depreciation, and do not necessarily indicate current market values of commercial realty. Like other major corporations, our financial statements are designed to comply with those accounting principles.

Unfortunately, there is presently no generally recognized accounting method to present the effect of Operating Income on the current value of commercial real estate. Reported Book Value, under traditional reporting concepts, is not affected by Operating Income.

For internal purposes, we have found it useful to develop an estimate of current value by applying a method employed by many reputable and experienced buyers, sellers and mortgagees of commercial operating properties. This method, in frequent use, is to capitalize the Operating Income* of mature operating properties at a percentage rate, called the "capitalization rate." The capitalization rate is designed to reflect the quality of a project and current money market conditions in determining a value that would provide an informed investor with an acceptable return on his investment. In so computing the "Estimated Current Value" of our mature properties at this time, we have used a capitalization rate of 10 percent, which we believe to be conservative. Undeveloped land, and operating properties held less than one year, have not established a suitable Operating Income pattern and so are included in our computations at their present Book Value.

This presentation is intended to assist in a fuller understanding of the usefulness and potentials of these properties to the future financial and operating success of our business. There is, however, no assurance that the Estimated Current Value shown could be realized on any individual or bulk sale of the properties, and we have no present plans to sell any substantial portion of these properties.

	1973	1972
	(000)	(000)
Operating Income*	$ 15,733	$ 14,015
Estimated Current Value of Operating Properties		
(Operating Income capitalized at 10%)	$157,330	$140,150
Undeveloped Land (book value)	26,635	24,423
Properties less than one year old (book value)	17,385	8,226
Total Estimated Current Value	$201,350	$172,799
Total Cost of Property and Equipment (before Depreciation)	168,173	153,393
Estimated Value in Excess of Cost	$ 33,177	$ 19,406

*Earnings before interest, depreciation and income taxes from properties in operation for at least full year.

Financial Review

Line of Business Reporting

Dayton Hudson Corporation consists of two related businesses — Retail and Real Estate. The Retail business, nationwide in scope, operates department, low-margin and specialty stores, which it owns or leases. The Real Estate business develops, owns and manages regional shopping centers and commercial properties.

Separate financial statements for the two lines of business are presented to give a clear picture of these operations. The performance and financial structure of each business can be judged against standards for its own industry.

Retail

■ **Revenues** increased 8.5 percent from those of 1972. Fiscal 1973 consisted of 52 weeks, compared with 53 weeks in 1972. On a comparable 52-week basis, Retail revenues increased 10 percent, and comparable-store revenues increased 5.9 percent. Comparable-store revenues exclude the contribution of stores opened during the preceding 12 months.

	52 Weeks 1973	53 Weeks 1972	Increase: All Stores	Increase: Comparable Stores
	(Millions)			
Department Stores	$ 793.5	$ 732.9	8.3%	6.3%
Low-Margin Stores	470.3	440.4	6.8%	.8%
Specialty Stores	105.7	89.5	18.2%	5.8%
Total Retail Revenues	$1,369.5	$1,262.8	8.5%	4.3%

■ **Net earnings** of the Retail business totaled $25.2 million in 1973, compared with $25.3 million before extraordinary items in 1972.

	1973	1972*
Earnings Before Income Taxes	(Millions)	
Department Stores	$42.0	$39.2
Low-Margin Stores	6.6	9.2
Specialty Stores	1.6	1.3
Total	$50.2	$49.7
Earnings After Taxes	$25.2	$25.3
Earnings Per Share	$ 1.57	$ 1.56

*All earnings data for 1972 are exclusive of extraordinary items.

■ **Expansion of retail stores and space** was primarily concentrated in the opening of three department stores and 41 bookstores. One Target store was opened in 1973, and a smaller leased unit was closed in the low-margin group.

Department Stores	End of 1973		End of 1972	
Stores and Expansion	Stores	Space*	Stores	Space*
Hudson's	11	4,729	11	4,881
Dayton's	7	2,822	6	2,707
Diamond's	5	715	4	534
Lipman's	6	618	5	506
Brown's	5	553	5	553
Total	34	9,437	31	9,181

Low Margin Stores	End of 1973		End of 1972	
Stores and Expansion	Stores	Space*	Stores	Space*
Target	46	4,790	46	4,747
Lechmere	4	773	4	771
Total	50	5,563	50	5,518

Specialty Stores	End of 1973		End of 1972	
Stores and Expansion	Stores	Space*	Stores	Space*
Jewelers	34	235	33	230
Booksellers	121	500	80	354
Team**	24	67	17	43
Total	179	802	130	627

* Thousands of Gross Square Feet.

** Includes only 100% owned stores; 83 Team stores are franchised or partially owned.

The three new department stores are:

☐ Dayton's 115,000-square-foot store in Fargo, North Dakota.

☐ Diamond's 180,000-square-foot store in Phoenix, Arizona.

☐ Lipman's 112,000-square-foot store in Portland, Oregon.

In 1974, the Corporation will open five department stores, totaling 687,000 square feet, and will continue the rapid expansion of Booksellers by adding approximately 40 units.

Real Estate

- **Revenues** of the Real Estate business increased by 9 percent during 1973. Land sales were less than expected because of the inability of certain prospective land buyers to arrange financing.
- **Funds Provided by Operations** before changes in long term debt of the Real Estate business totaled $8.2 million in 1973, compared with $8.1 million in 1972. Funds Provided is a measure of cash generated from operations. Funds Provided from operating properties — the shopping centers and other commercial properties — increased in 1973, despite the higher interest burden resulting from refinancing of Southdale Shopping Center in 1972 (the proceeds from which enabled Dayton Hudson Properties to pay a dividend to the Retail business at the year end 1972).
- **Net earnings** of Real Estate were $2.1 million in 1973, compared with $2.9 million in 1972. The contribution of operating properties increased significantly to $4.6 million. This increase was offset by higher development expenses on new properties. Net earnings, as shown in the Results of Operations, differ from Funds Provided because earnings reflect charges for depreciation and deferred taxes, which do not require cash.

	1973	1972
Earnings Before Income Taxes	(Millions)	
Operating Properties	$4.6	$3.8
Land Holding	1.5	3.1
Development	(3.0)	(2.0)
Earnings Before Taxes	$3.1	$4.9
Net Earnings	$2.1	$2.9
Depreciation, Deferred Taxes and Other Items	$6.1	$5.2
Funds Provided by Operations Before Changes in Long-Term Debt	$8.2	$8.1

- **Expansion** of Real Estate operations totaled 299,000 square feet, a 9-percent increase, with the completion of an office building and expansion of a medical office in 1973. An additional 666,000 square feet is planned for 1974, including a new shopping center in Minnesota and a major expansion of two centers in the Detroit area. Dayton Hudson Properties will be moving into other markets in the near future, with a regional shopping center joint venture scheduled for construction in Oklahoma City.
- **Estimated Current Value** of Real Estate assets increased 16.5 percent to $201 million in 1973, reflecting both the increase in operating income from properties and the increase in book value of our projects at various stages of development. An explanation of this measure, which is considered important to shareholders and commonly used in the real estate industry, is detailed on Page 14.

Capital Expenditures

Expansion continued at a strong pace during 1973. Retail capital expenditures were 23 percent higher than in 1972, and Real Estate capital expenditures were twice the 1972 level. The Corporation expects to spend $36 million for Retail and $24 million for Real Estate expansion in 1974.

Financing

Separate policies determine the Corporation's use of borrowed money in the financing of its two businesses. In Retail operations, the standard is an equal balance of debt (including a capitalization factor for leases) and equity capital. The Corporation will maintain a satisfactory level of fixed charge coverage.

Long term debt in Retail operations was reduced by amortization during 1973. Debt as a percent of capitalization of that line of business declined to 47 percent in 1973 from 49 percent in 1972.

The Real Estate business is more heavily leveraged, consistent with industry practices. The credit that supports Real Estate debt, secured by individual properties, consists of long-term leases with a group of diverse, high-quality tenants. The Corporation does not believe Real Estate debt impinges on the credit of its Retail line of business.

During 1973, Real Estate operations added approximately $12 million of mortgage debt by financing two completed projects — an office building near Detroit, Michigan, and a medical office near Minneapolis, Minnesota. Additional long-term debt for land contracts and construction in progress was added in 1973.

Dividends

Dividends paid during the past two years have been in accordance with guidelines of the U.S. Committee on Interest and Dividends. The dividend increase from $.52 per share in 1972 to $.54 in 1973 was the maximum allowed under the guidelines.

Quarterly Comparisons

Comparative quarterly Revenues, Earnings per common share, and Funds Provided by Operations are as follows:

Revenues	1973			1972		
Quarter	Consolidated	Retail	Real Estate	Consolidated	Retail	Real Estate
First	$ 296.5	$ 289.6	$ 6.9	$ 248.8	$ 243.5	$ 5.3
Second	320.1	310.9	9.2	289.2	281.6	7.6
Third	334.3	324.2	10.1	312.8	302.9	9.9
Fourth	456.3	444.8	11.5	446.6	$ 434.8	11.8
Total Year	$1,407.2	$1,369.5	$37.7	$1,297.4	$1,262.8	$34.6
Earnings Per Common Share*						
Quarter						
First	$ .08	$ .07	$ .01	$ .05	$ .03	$ .02
Second	.11	.10	.01	.18	.11	.07
Third	.26	.27	(.01)	.24	.22	.02
Fourth	1.25	1.13	.12	1.27	1.20	.07
Total Year	$ 1.70	$ 1.57	$ .13	$ 1.74	$ 1.56	$ .18
Funds Provided by Operations before Changes in Long Term Debt*						
Quarter						
First	$ 8.4	$ 6.8	$ 1.6	$ 7.4	$ 5.8	$ 1.6
Second	8.3	6.7	1.6	9.7	7.3	2.4
Third	11.7	10.4	1.3	10.8	9.0	1.8
Fourth	27.4	23.7	3.7	27.7	25.4	2.3
Total Year	$ 55.8	$ 47.6	$ 8.2	$ 55.6	$ 47.5	$ 8.1

*All 1972 amounts are before net extraordinary items.
All amounts in millions except earnings per share.

Corporate Citizenship

Dayton Hudson Corporation has long believed that it has a major obligation to help improve the quality of life in the communities in which it does business. Donations by the Corporation and Dayton Hudson Foundation for this purpose totaled $2,019,562 in 1973. The major portion of this was directed toward the development of programs to help solve social problems, and the support of the arts — an area relatively neglected by government and other funding sources. Employees are encouraged to contribute their time, talent and leadership to community programs.

Corporate citizenship also is reflected in the way a company conducts its business. In addition to community development, Dayton Hudson has formal programs concerning consumerism, human resources, environmental impact, and energy conservation. Each operating company is charged with developing a program to meet its responsibilities in these areas.

Results of Operations
Dayton Hudson Corporation and Subsidiaries

CONSOLIDATED
(Thousands of Dollars)

	1973 52 Weeks Ended February 2,1974	1972 53 Weeks Ended February 3,1973
REVENUES		
Net retail sales, including leased departments and carrying charges	$1,367,984	$1,260,845
Real estate sales	11,195	10,307
Rental revenue	28,077	26,234
	$1,407,256	$1,297,386
COSTS AND EXPENSES		
Cost of retail sales, buying and occupancy	$ 985,845	$ 917,472
Cost of real estate sales	7,594	5,120
Selling, publicity and administrative	259,739	230,539
Depreciation and amortization	25,279	24,370
Rental expense	19,703	16,926
Interest expense	20,730	18,482
Taxes other than income taxes	35,084	29,897
	$1,353,974	$1,242,806
EARNINGS BEFORE INCOME TAXES AND EXTRAORDINARY ITEMS	$ 53,282	$ 54,580
INCOME TAXES (Note E)		
Current	$ 18,951	$ 18,994
Deferred	7,031	7,391
	$ 25,982	$ 26,385
EARNINGS BEFORE EXTRAORDINARY ITEMS	$ 27,300	$ 28,195
EXTRAORDINARY ITEMS (Note D)	—	(692)
NET EARNINGS	$ 27,300	$ 27,503
EARNINGS PER SHARE		
Earnings before extraordinary items	$ 1.70	$ 1.74
Extraordinary items, net	—	(.04)
Net earnings	$ 1.70	$ 1.70

RETAIL
(Thousands of Dollars)

REVENUES	
Net retail sales, including leased departments and carrying charges	
Rental revenue	
COSTS AND EXPENSES	
Cost of retail sales, buying and occupancy	
Selling, publicity and administrative	
Depreciation and amortization	
Rental expense	
Interest expense	
Taxes other than income taxes	
EARNINGS BEFORE INCOME TAXES AND EXTRAORDINARY ITEMS	
INCOME TAXES (Note E)	
Current	
Deferred	
EARNINGS BEFORE EXTRAORDINARY ITEMS	
EXTRAORDINARY ITEMS (Note D)	
NET EARNINGS	
EARNINGS PER SHARE	
Earnings before extraordinary items	
Extraordinary items, net	
Net earnings	

See accompanying Summary of Accounting Policies and Notes to Financial Statements.

	1973 52 Weeks Ended February 2, 1974	1972 53 Weeks Ended February 3,1973
....	$1,367,984	$1,260,845
....	1,557	1,914
	$1,369,541	$1,262,759
....	$ 979,870	$ 912,243
....	255,238	225,999
....	20,816	19,749
....	19,703	16,926
....	13,458	13,243
....	30,299	24,949
	$1,319,384	$1,213,109
....	$ 50,157	$ 49,650
....	$ 19,073	$ 17,505
....	5,871	6,829
	$ 24,944	$ 24,334
....	$ 25,213	$ 25,316
....	—	(692)
....	$ 25,213	$ 24,624
....	$ 1.57	$ 1.56
....	—	(.04)
....	$ 1.57	$ 1.52

REAL ESTATE

(Thousands of Dollars)

	1973 52 Weeks Ended February 2, 1974	1972 53 Weeks Ended February 3,1973
OPERATING PROPERTIES		
Rental Revenue From Operating Properties	$26,520	$24,320
Operating Expenses:		
Occupancy and administrative	$ 6,895	$ 6,694
Maintenance and repairs	797	779
Taxes other than income taxes	3,823	3,684
Depreciation and amortization	4,463	4,621
Interest expense	5,900	4,733
	$21,878	$20,511
Earnings from Operating Properties, before income taxes	$ 4,642	$ 3,809
LAND HOLDING		
Real Estate Sales	$11,195	$10,307
Costs and Expenses:		
Cost of real estate sales	7,594	5,120
Taxes other than income taxes	765	946
Interest expense	547	298
Other	794	847
	$ 9,700	$ 7,211
Earnings from Land Holding, before income taxes	$ 1,495	$ 3,096
DEVELOPMENT EXPENSE		
Development Expense, excluding interest	$ 2,187	$ 1,828
Interest expense	825	147
Total Development Expense	$ 3,012	$ 1,975
EARNINGS BEFORE INCOME TAXES	$ 3,125	$ 4,930
INCOME TAXES (Note E)		
Current	$ (122)	$ 1,489
Deferred	1,160	562
	$ 1,038	$ 2,051
NET EARNINGS	$ 2,087	$ 2,879
EARNINGS PER SHARE	$ .13	$ .18

Statements of Financial Position
Dayton Hudson Corporation and Subsidiaries

(Thousands of Dollars) February 2, 1974

ASSETS

	Consolidated	Retail	Real Estate
CURRENT ASSETS			
Cash	$ 8,212	$ 8,127	$ 85
Accounts receivable			
Thirty day accounts	5,203	5,203	—
Deferred payment accounts	200,496	200,496	—
Other accounts	18,841	10,746	8,095
Less allowance for losses	(4,386)	(4,319)	(67)
	220,154	212,126	8,028
Intercompany accounts	—	2,061	(2,061)
Merchandise inventories (Note A)	200,026	200,026	—
Supplies and prepaid expenses	5,420	5,223	197
TOTAL CURRENT ASSETS	$433,812	$427,563	$ 6,249
INVESTMENTS AND OTHER ASSETS	$ 18,390	$ 7,422	$ 10,968
PROPERTY AND EQUIPMENT (Note B)			
Land and improvements	$ 86,776	$ 51,887	$ 34,889
Buildings and improvements	362,409	243,419	118,990
Fixtures and equipment	100,880	98,601	2,279
Construction in progress	25,274	13,259	12,015
Accumulated depreciation	(193,392)	(148,135)	(45,257)
	381,947	259,031	122,916
	$834,149	$694,016	$140,133

LIABILITIES

	Consolidated	Retail	Real Estate
CURRENT LIABILITIES			
Accounts payable	$ 88,711	$ 85,355	$ 3,356
Taxes other than income taxes	29,148	22,278	6,870
Accrued liabilities	31,560	30,151	1,409
Income taxes, currently payable	17,033	17,076	(43)
Deferred income taxes — installment sales (Note E)	28,785	28,785	—
Current portion of long term debt	9,124	3,702	5,422
TOTAL CURRENT LIABILITIES	$204,361	$187,347	$ 17,014
LONG TERM DEBT (Note B)	$268,771	$163,985	$104,786
DEFERRED CREDITS — principally income taxes (Note E)	$ 20,470	$ 14,187	$ 6,283
SHAREHOLDERS' INVESTMENT (Notes B & C)	$340,547	$328,497	$ 12,050
	$834,149	$694,016	$140,133

See accompanying Summary of Accounting Policies and Notes to Financial Statements.

(Thousands of Dollars) February 3, 1973

ASSETS

	Consolidated	Retail	Real Estate
CURRENT ASSETS			
Cash	$ 17,857	$ 17,218	$ 639
Accounts receivable			
Thirty day accounts	7,157	7,157	—
Deferred payment accounts	163,773	163,773	—
Other accounts	23,271	18,022	5,249
Less allowance for losses	(3,168)	(3,156)	(12)
	191,033	185,796	5,237
Intercompany accounts	—	892	(892)
Merchandise inventories (Note A)	197,836	197,836	—
Supplies and prepaid expenses	4,890	4,725	165
TOTAL CURRENT ASSETS	$411,616	$406,467	$ 5,149
INVESTMENTS AND OTHER ASSETS	$ 14,852	$ 10,037	$ 4,815
PROPERTY AND EQUIPMENT (Note B)			
Land and improvements	$ 83,972	$ 52,063	$ 31,909
Buildings and improvements	342,887	231,692	111,195
Fixtures and equipment	105,888	103,825	2,063
Construction in progress	12,612	4,386	8,226
Accumulated depreciation	(184,227)	(143,422)	(40,805)
	361,132	248,544	112,588
	$787,600	$665,048	$122,552

LIABILITIES

	Consolidated	Retail	Real Estate
CURRENT LIABILITIES			
Accounts payable	$ 81,850	$ 80,112	$ 1,738
Taxes other than income taxes	27,133	19,104	8,029
Accrued liabilities	26,758	25,782	976
Income taxes, currently payable	17,774	16,919	855
Deferred income taxes — installment sales (Note E)	23,525	23,525	—
Current portion of long term debt	8,287	3,896	4,391
TOTAL CURRENT LIABILITIES	$185,327	$169,338	$ 15,989
LONG TERM DEBT (Note B)	$259,039	$176,489	$ 82,550
DEFERRED CREDITS — principally income taxes (Note E)	$ 18,540	$ 13,390	$ 5,150
SHAREHOLDERS' INVESTMENT (Notes B & C)	$324,694	$305,831	$ 18,863
	$787,600	$665,048	$122,552

Statements of Changes in Financial Position

Dayton Hudson Corporation and Subsidiaries

CONSOLIDATED

(Thousands of Dollars)

	1973 52 Weeks Ended February 2, 1974	1972 53 Weeks Ended February 3, 1973
FUNDS PROVIDED BY		
Operations:		
Earnings before extraordinary items	$27,300	$ 28,195
Items not affecting working capital:		
Depreciation and amortization	25,279	24,370
Increase in non-current deferred income taxes	2,337	2,662
Other items	910	411
Total from operations before extraordinary items	$55,826	$ 55,638
Extraordinary items, net of applicable income taxes (Note D)	—	(692)
Extraordinary items not affecting working capital	—	1,770
TOTAL FROM OPERATIONS	$55,826	$ 56,716
Proceeds from sale of investments, less net gain included with extraordinary items	$ —	$ 3,150
Increase in long term debt	17,639	37,826
Disposals of property and equipment	9,681	6,390
Other	244	1,611
	$83,390	$105,693
FUNDS USED FOR		
Additions to property and equipment	$55,775	$ 36,876
Reduction of long term debt	7,907	9,025
Cash dividends	8,917	8,666
Acquisition of treasury stock	2,530	2
Increase in long term receivables	4,294	521
Other	805	—
Increase in working capital	3,162	50,603
	$83,390	$105,693
CHANGES IN COMPONENTS OF WORKING CAPITAL:		
Increases (decreases) in current assets:		
Cash	$ (9,645)	$ (7,668)
Accounts receivable	29,121	28,172
Merchandise inventories	2,190	15,901
Supplies and prepaid expenses	530	1,448
	$22,196	$ 37,853
Increases (decreases) in current liabilities:		
Notes payable	$ —	$ (31,750)
Accounts payable	6,861	12,115
Accrued expenses and other	12,077	7,987
Income taxes, currently payable	(741)	3,521
Current portion of long term debt	837	(4,623)
	$19,034	$ (12,750)
NET INCREASE	$ 3,162	$ 50,603

See accompanying Summary of Accounting Policies and Notes to Financial Statements.

RETAIL

(Thousands of Dollars)

FUNDS PROVIDED BY
Operations:
Earnings before extraordinary items
Items not affecting working capital:
Depreciation and amortization
Increase in non-current deferred income taxes
Other items
Total from operations before extraordinary items
Extraordinary items, net of applicable income taxes (Note D)
Extraordinary items not affecting working capital
TOTAL FROM OPERATIONS
Proceeds from sale of investments, less net gain included with extraordinary items
Increase in long term debt
Dividends received from Real Estate
Disposals of property and equipment
Other
FUNDS USED FOR
Additions to property and equipment
Reduction of long term debt
Cash dividends
Acquisition of treasury stock
Other
Increase in working capital
CHANGES IN COMPONENTS OF WORKING CAPITAL:
Increases (decreases) in current assets:
Cash
Accounts receivable
Merchandise inventories
Supplies and prepaid expenses
Intercompany accounts
Increases (decreases) in current liabilities:
Notes payable
Accounts payable
Accrued expenses and other
Income taxes, currently payable
Current portion of long term debt
NET INCREASE

	1973 52 Weeks Ended February 2,1974	1972 53 Weeks Ended February 3,1973
	$25,213	$ 25,316
	20,816	19,749
	1,177	2,049
	390	390
	$47,596	$ 47,504
	—	(692)
	—	1,770
	$47,596	$ 48,582
	$ —	$ 3,150
	—	25,000
	8,900	9,697
	2,010	165
	2,495	3,669
	$61,001	$ 90,263
	$33,313	$ 27,020
	12,504	4,522
	8,917	8,666
	2,530	2
	650	256
	3,087	49,797
	$61,001	$ 90,263
	$(9,091)	$ (8,078)
	26,330	27,265
	2,190	15,901
	498	1,317
	1,169	(1,029)
	$21,096	$ 35,376
	$ —	$(31,750)
	5,243	11,711
	12,803	7,587
	157	3,043
	(194)	(5,012)
	$18,009	$(14,421)
	$ 3,087	$ 49,797

REAL ESTATE

(Thousands of Dollars)

	1973 52 Weeks Ended February 2,1974	1972 53 Weeks Ended February 3,1973
FUNDS PROVIDED BY		
Operations:		
Net earnings	$ 2,087	$ 2,879
Items not affecting working capital:		
Depreciation and amortization	4,463	4,621
Increase in non-current deferred income taxes	1,160	613
Other Items	520	21
Funds provided by operations before payments on long term debt	$ 8,230	$ 8,134
Principal payments on long term debt	(5,173)	(4,503)
Funds after debt service	$ 3,057	$ 3,631
Other sources:		
Increase in long term debt	$28,440	$12,826
Disposals of property and equipment	7,671	6,225
	$39,168	$22,682
FUNDS USED FOR		
Additions to property and equipment	$22,462	$ 9,856
Dividends paid to Retail	8,900	9,697
Other working capital changes, net	1,660	3,084
Increase (decrease) in long term receivables	6,220	(976)
Other	480	611
Increase (decrease) in cash	(554)	410
	$39,168	$22,682

Summary of Accounting Policies

Dayton Hudson Corporation and Subsidiaries

Dayton Hudson Corporation uses the accrual method of accounting following generally conservative accounting policies. These policies include depreciating fixed assets generally over the shortest allowable life, expensing start-up costs (interest and taxes during construction and pre-opening expenses) as they are incurred, and the LIFO method of inventory valuation.

The following is a more specific description of these and other accounting policies.

Consolidation. The financial statements include the accounts of Dayton Hudson Corporation and subsidiaries, substantially all of which are wholly owned. The joint ventures of the real estate subsidiaries are accounted for on an equity basis.

Financial Data by Lines of Business. Dayton Hudson Corporation is a diversified retail organization which operates department stores, low margin stores and specialty stores. In addition, the Corporation's real estate operation owns and manages regional shopping centers and other commercial properties.

In order to more clearly delineate the effect of the retail and real estate activities on the Corporation's results of operations, flow of funds, and financial position, the accompanying financial statements have been presented as consolidated, retail only and real estate only. Because informative reporting requirements differ widely between retail and real estate, it will not be possible in all cases to total individual captions on the retail and real estate financial statements to agree with consolidated total captions. Since legal entities are not exclusively either retail or real estate, the following allocation methods have been employed to prepare the separate financial statements.

Assets, liabilities, revenues and expenses specifically identifiable as either retail or real estate have been so designated, with those not specifically identifiable allocated as follows:

1. Shopping center property, including related depreciation, owned by real estate and utilized by department stores is allocated to the applicable retail stores on the basis of the percentage of area occupied by the Corporation's department stores to gross area. The common mall areas, heating, ventilating and air conditioning facilities of the shopping centers are considered real estate properties. Parking lot area is allocated on the basis of leaseable space in the center, which is consistent with industry standards.
2. Secured debt and related interest are allocated on the basis of the property pledged as collateral to the debt. Unsecured long term debt has been assigned to retail except for the portion utilized to finance real estate construction in progress.
3. Property taxes are allocated on the basis of gross leaseable area, which is in accordance with general terms of leases with shopping center tenants.
4. Income tax expense is allocated as follows — tax on capital gains transactions are allocated directly to the appropriate line of business with the remainder allocated using the overall effective rate. Deferred income taxes have been allocated to the real estate and retail lines of business based on

the assets or liabilities associated with those deferred taxes.

Financial data presented elsewhere in the annual report also delineates the results of retail operations between department stores, low margin stores, and specialty stores. Corporate Office expenses are allocated to the retail and real estate lines of business based on assets, sales and payroll dollars.

Inventories. Inventories and related cost of sales are accounted for principally by the retail inventory method using the last-in, first-out (LIFO) basis.

Other Costs, Expenses, and Related Statement of Financial Position Accounts. Property and equipment is carried at cost less accumulated depreciation. The depreciation expense is computed by the straight line method for reporting purposes and by accelerated methods for income tax purposes. The related deferred income taxes are included in "Deferred Credits" on the Statements of Financial Position. The following estimated lives are used in computing depreciation: buildings — 20 to 50 years; leaseholds and leasehold improvements — life of lease or expected useful life of the asset whichever is less; and fixtures and equipment — 3 to 20 years. Leasing expenses and allowances to tenants for leasehold improvements are amortized over the life of the leases.

Expenses incurred in obtaining long-term debt are amortized over the period of the debt.

Development expense of new stores, including interest, real estate tax during construction and pre-opening expenses, are expensed as incurred for new stores and for land held for future development.

New buildings and major renovation of older buildings are capitalized and depreciated over their estimated useful lives.

Retail customer accounts receivable are generally written off in full when any portion of the unpaid balance is past due twelve months. The allowance for losses arising from uncollectible customer accounts receivable is based on historical bad debt experience and an evaluation of periodic aging of the accounts.

The Corporation and its subsidiaries have several retirement plans covering substantially all employees. The Corporation's policy is to fund pension costs accrued. The contributions to the plans for fiscal 1973 and 1972 were $5.1 million and $4.8 million, respectively. The actuarially computed value of vested benefits of one plan exceeds the pension fund assets by $2.6 million. In the aggregate, however, total pension fund assets exceed total liabilities of all plans. In addition, the Corporation has a Savings and Stock Purchase Plan which is made available to substantially all employees who meet the eligibility requirements (primarily based on age and length of service). Under this plan, the Corporation contributes 50¢ for each dollar deposited by the employee. Vesting commences after participating in the plan for three years and the employee is fully vested after ten years.

Income Taxes. Deferred income taxes are provided for income and expenses which are recognized in different accounting periods for financial reporting than for income tax purposes.

Gross profit on installment sales is recognized for financial reporting purposes when the sales are recorded. For income tax purposes the installment method of reporting profit on installment sales is used. The related deferred income taxes are included in the Statements of Financial Position as a current liability.

Deferred income taxes resulting from the use of accelerated depreciation methods are classified as "Deferred Credits" in the Statements of Financial Position.

The Corporation and its subsidiaries file a consolidated Federal income tax return.

The income tax provision includes Federal and State income taxes computed at ordinary and capital gains rates (principally in the real estate operations), where applicable. Investment credit has been used to reduce income taxes in the year the property was placed into service.

Per Share Data. Earnings per common share, consolidated and retail, have been computed after provision for dividends on preferred stock ($334,000 in 1973 and $337,000 in 1972) based upon the weighted average number of shares (15,890,000 in 1973 and 16,017,000 in 1972) outstanding during the year. Per share amounts for real estate have been computed based on net income of real estate operations.

Reclassification of Accounts. Certain account balances of prior years have been reclassified to conform with classifications in 1973. None of these reclassifications had an effect on net earnings.

Notes to Financial Statements

Dayton Hudson Corporation and Subsidiaries

A. INVENTORIES AND COST OF SALES

Substantially all inventories (approximately 88%) are recorded at cost on the last-in, first-out (LIFO) method. The remaining inventories are stated at the lower of cost (first-in, first-out) or market.

Inventories in the respective years are stated $21.8 million and $11.4 million less than the amount which would have been determined under the retail method without regard to last-in, first-out principles.

B. LONG TERM DEBT and other borrowings

(Thousands of Dollars)

A summary of long term debt due beyond one year is as follows:

	February 2, 1974			February 3, 1973		
	Consolidated	Retail	Real Estate	Consolidated	Retail	Real Estate
Notes under 1971 Credit Agreement	$ 32,000	$ 20,000	$ 12,000	$ 29,000	$ 29,000	
Notes under 1973 Credit Agreement	25,000	25,000		25,000	25,000	
Sinking Fund Debentures	50,000	50,000		50,000	50,000	
5⅜% Sinking Fund Notes — payable $800,000 annually to 1982	7,200	7,200		8,000	8,000	
6% Sinking Fund Notes and other unsecured notes — maturing at various dates to 1985 and bearing interest at from 4% to 7½% ...	4,235	4,235		4,650	4,593	$ 57
Mortgage notes, notes and contracts for purchase of real estate — payable over periods ranging to 30 years from inception and bearing interest at from 4% to 10%	150,336	57,550	92,786	142,389	59,896	82,493
	$268,771	$163,985	$104,786	$259,039	$176,489	$82,550

The notes under the 1971 Credit Agreement, as amended in 1973, bear interest at the prime rate (9.5% at February 2, 1974) and are payable on December 31, 1976. The maximum amount available under the Agreement is $40 million and the Corporation may at any time prior to maturity convert the commitment balance to a term loan payable in 16 equal quarterly installments commencing three months after the conversion date. In February, 1974, the $32 million owing at year-end under the 1971 Credit Agreement was refinanced by $32 million of short-term borrowings. In compensation for the revolving credit, the Corporation was expected to and did maintain average net collected balances of approximately $3.75 million during 1973. These balances were at all times legally subject to withdrawal with no restrictions, and served as part of the Corporation's operating cash balance.

The notes under the 1973 Credit Agreement bear interest at a variable rate not to exceed an average of 7⅝% over the life of the Agreement. The maximum amount available under the Agreement is $25 million. The notes are payable on January 2, 1975, or the Corporation has the option to convert the balance to a term loan payable in 32 equal quarterly installments with final maturity on January 3, 1983. The Corporation is not required to maintain compensating balances under the Agreement.

A commitment fee of ½ of 1% per annum is payable on the unused commitment balance under both credit agreements.

The 7¾% and 9¾% Sinking Fund Debentures, each for $25 million, due in 1994 and 1995, respectively, are redeemable through minimum annual sinking fund payments of $1.25 million commencing in 1975 and 1976, respectively.

The 7¾% and 9¾% Sinking Fund Debentures, the Credit Agreements and the 5⅜% and 6% Sinking Fund notes each contain varying provisions and restrictions for the protection of the lenders relating to working capital, sale of receivables, dividends and other restricted payments and other restricting convenants. Under the most restrictive of these provisions, $74.3 million of retained earnings at February 2, 1974, was available for dividends and other restricted payments.

The book value of land, buildings and equipment pledged as collateral to mortgage notes and contracts aggregated $169.0 million at February 2, 1974.

Aggregate annual payments on long-term debt (exclusive of notes under credit agreements) for the next five years are as follows: 1974 — $9,124; 1975 — $9,167; 1976 — $13,326; 1977 — $15,967; 1978 — $9,093.

The Corporation has available annually renewable, unsecured lines of credit totaling $105.5 million with 16 banks. Borrowing under these lines is at the prime interest rate. During 1973, the maximum short term debt (bank lines and commercial paper) outstanding

on any one day was $73 million, and the average was approximately $40 million. There was no short term debt in use at year-end. The average interest rate paid on short term borrowing was approximately 8.3%. In compensation for the line of credit arrangements at the banks, the Company was expected to and did maintain average net collected compensating balances (ledger balances less float, as computed by the banks) of approximately $10.6 million. These balances were at all times legally subject to withdrawal with no restrictions, served as part of the Corporation's operating cash balance and at certain banks served additionally as compensation for account handling and other services.

C. SHAREHOLDERS' INVESTMENT

(Thousands of Dollars)

	Lines of Business		Consolidated				
	Retail	Real Estate	Total	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings
Balance January 29, 1972	$280,149	$25,681	$305,830	$622	$16,015	$39,302	$249,891
Net Earnings	24,624	2,879	27,503				27,503
Cash Dividends:							
Common Stock ($.52 a share)	(8,329)		(8,329)				(8,329)
Preferred Stock	(337)		(337)				(337)
Common Stock Purchased for Treasury (559 shares)	(2)		(2)		(1)		(1)
Dividend — Real estate to retail	9,697	(9,697)					
Other	29		29	(5)	3	31	
Balance February 3, 1973	$305,831	$18,863	$324,694	$617	$16,017	$39,333	$268,727
Net Earnings	25,213	2,087	27,300				27,300
Cash Dividends:							
Common Stock ($.54 a share)	(8,583)		(8,583)				(8,583)
Preferred Stock	(334)		(334)				(334)
Common Stock Purchased for Treasury (167,200 shares)	(2,530)		(2,530)		(167)		(2,363)
Dividend — Real estate to retail	8,900	(8,900)					
Other				(10)	2	8	
Balance February 2, 1974	$328,497	$12,050	$340,547	$607	$15,852	$39,341	$284,747

Preferred Stock — Authorized 200,000 shares voting without par value, issuable in series; outstanding at February 2, 1974 and February 3, 1973, 33,675 and 34,675 shares, respectively, of $5 Convertible Preferred Stock (liquidation value of $3.4 million), and 27,000 shares of $6 Convertible Preferred Stock (liquidation value of $2.7 million); convertible into Common Stock at 2⅔ shares for each share of Preferred Stock.

Common Stock — Authorized 20,000,000 shares par value of $1 a share; outstanding at February 2, 1974, consists of 16,081,118 shares issued less 228,587 shares in Treasury, and at February 3, 1973, 16,081,118 shares issued less 64,053 shares in Treasury.

D. EXTRAORDINARY ITEMS

(Thousands of Dollars)

The Results of Operations for 1972 include an extraordinary charge of $1,770, net of applicable income tax credits of $911, for the writedown of the Corporation's investment in a catalog showroom business in connection with the disposition of that business and an extraordinary credit of $1,078, net of applicable income taxes of $561, representing gain on the sale of investments.

E. INCOME TAX EXPENSE

(Thousands of Dollars)

The components of the provision for income taxes are as follows:

	1973			1972		
	Total	Federal	State	Total	Federal	State
Consolidated:						
Current	$18,951	$16,149	$2,802	$18,994	$15,785	$3,209
Deferred	7,031	6,158	873	7,391	6,723	668
Total	$25,982	$22,307	$3,675	$26,385	$22,508	$3,877
Retail:						
Current	$19,073	$16,395	$2,678	$17,505	$14,426	$3,079
Deferred	5,871	5,132	739	6,829	6,223	606
Total	$24,944	$21,527	$3,417	$24,334	$20,649	$3,685
Real Estate:						
Current	$ (122)	$ (246)	$ 124	$ 1,489	$ 1,359	$ 130
Deferred	1,160	1,026	134	562	500	62
Total	$ 1,038	$ 780	$ 258	$ 2,051	$ 1,859	$ 192

Deferred income taxes result from timing differences in the recognition of revenue and expense for financial reporting and income tax purposes. The timing differences and the related deferred taxes are as follows:

	1973			1972		
	Consolidated	Retail	Real Estate	Consolidated	Retail	Real Estate
Excess of tax over book depreciation	$2,155	$1,437	$ 718	$2,732	$1,811	$921
Deferred income on installment sales	5,048	4,694	354	4,131	4,634	(503)
Other	(172)	(260)	88	528	384	144
Total	$7,031	$5,871	$1,160	$7,391	$6,829	$562

Based on the Corporation's anticipated future operations and expenditures, no substantial reduction in the deferred income tax balance is anticipated in the succeeding three years.

The 1972 amounts are before giving effect to tax credits of $350 applicable to extraordinary items.

F. STOCK OPTION PLANS

The Corporation has two stock option plans for key employees. No new options will be awarded under the Qualified Stock Option Plan, adopted by the Corporation in 1967. Under the 1972 Employee Stock Option Plan as amended, certain eligible employees received qualified stock options, non-qualified stock options, and a right to receive, without payment of cash to the Corporation, a number of shares as determined under a formula in lieu of exercise of the related qualified and non-qualified stock options. The qualified and non-qualified stock options were granted at 100% of market at date of grant with the qualified stock option expiring in five years and the non-qualified stock option in ten years. To the extent option shares are used in calculating stock rights, the related option shares are cancelled. 400,000 shares were originally reserved for issuance under the 1972 Stock Option Plan. Shares available for grant at February 2, 1974, and February 3, 1973, were 328,000 and 361,250, respectively.

Certain stock options granted and to be granted could, under certain circumstances, result in charges against operations of the Corporation as compensation to the participant. There were no such charges during 1973 and 1972.

Options for the purchase of 167,700 and 194,650 shares were outstanding at February 2, 1974, and February 3, 1973, respectively, at prices ranging from $11.25 to $39.00 per share. Options for 66,350 and 3,100 shares were cancelled during 1973 and 1972, respectively, at prices ranging from $24.13 to $39.00 per share. Options for 32,076 and 26,749 shares during 1973 and 1972, respectively, became exercisable at prices ranging from $24.13 to $39.00 a share.

G. LEASES AND OTHER COMMITMENTS

(Thousands of Dollars)

Rental expense on long-term leases included in the income statements for fiscal years 1973 and 1972, net of sublease income was:

	1973	1972
Financing leases:		
Minimum rentals	$ 2,668	$ 2,573
Contingent rentals	257	295
	$ 2,925	$ 2,868
Other leases:		
Minimum rentals	$12,097	$10,295
Contingent rentals	2,831	2,529
	$14,928	$12,824
Total rentals	$17,853	$15,692

Sublease income of $1,201 (financing leases — $507; other leases — $694) for 1973 and $928 (financing leases — $454; other leases — $474) for 1972 have been deducted from total rentals in determining the above expenses.

Financing leases have not been capitalized in the accompanying financial statements.

Contingent rentals are generally based upon a percentage of sales. Most leases require additional payments for real estate taxes, insurance, and other expenses.

The consolidated minimum annual rentals of long-term noncancelable leases of the Corporation and subsidiaries at February 2, 1974, net of rentals to be received from noncancelable subleases for space leased to others, were as follows:

		Financing Leases		Other Leases	
	Total	Real Property	Personal Property	Real Property	Personal Property
1974	$12,828	$ 2,638	$355	$ 9,361	$474
1975	13,100	2,638	355	9,805	302
1976	12,687	2,638	355	9,607	87
1977	12,423	2,655	355	9,396	17
1978	12,160	2,770	237	9,147	6
1979 - 1983	54,971	13,908	—	41,063	—
1984 - 1988	36,753	12,610	—	24,143	—
1989 - 1993	16,044	10,491	—	5,553	—
1994-	19,882	13,462	—	6,420	—

The above minimum rentals reflect the Corporation's gross lease obligations reduced by sublease income from real property annually averaging approximately $1,397 for 1974-1978; $957 for 1979-1983; $672 for 1984-1988; $584 for 1989-1993; and $448 for 1994. Substantially all leases are for property used by the Retail companies.

The estimated present values and related interest rates of net minimum rental commitments for financing leases at February 2, 1974, and February 3, 1973, are as follows:

Interest Rates				Present Value	
Weighted Average		Range		Feb. 3,	Feb. 2,
1973	1972	1973	1972	1974	1973
7.1%	7.3%	5%-10%	5%-10%	$32,155	$30,322

Substantially all financing leases are for real property.

If all financing leases had been capitalized, net income for 1973 and 1972 would have been reduced by less than 1% for both years.

Commitments for construction of new facilities and the purchase of real estate amounted to approximately $28.3 million and $20.8 million at February 2, 1974, and February 3, 1973, respectively.

H. CREDIT SALES RESULTS

Credit sales were $588.0 and $512.2 million for 1973 and 1972, respectively. Regular charge account sales, including revolving charge accounts, were approximately 96% of total credit sales. Time payment accounts make up the balance of credit sales.

The cost of the retail credit operation presented in accordance with a practice generally followed by the retail industry is as follows:

(In millions)	1973	1972
Costs		
Administration	$16.8	$14.5
Interest	10.5	8.1
Provision for bad debts	5.0	2.9
Total costs	$32.3	$25.5
Service charge income	$19.2	$16.4
Gross cost of credit	$13.1	$ 9.1
Net cost of credit (net of income tax credit of $6.4 and $4.4)	$ 6.7	$ 4.7
Net cost as a percent of credit sales	1.1%	.9%

Administration costs include in-store costs related to credit activities as well as the direct cost of operating the credit offices.

Interest is computed by applying the average interest rate incurred on retail operations (7.3% for 1973 and 6.6% for 1972) to the average total customer accounts receivable reduced by deferred income taxes resulting from retail installment sales.

The income tax credit is computed at the Corporation's consolidated effective income tax rate.

The Corporation is unable to measure incremental sales attributable to the extension of credit.

Accountants' Report

Board of Directors and Shareholders
Dayton Hudson Corporation
Minneapolis, Minnesota

We have examined the financial statements of Dayton Hudson Corporation and subsidiaries and of their Retail and Real Estate Operations as of February 2, 1974 and February 3, 1973. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying statements of financial position and statements of results of operations and changes in financial position present fairly the financial position of Dayton Hudson Corporation and subsidiaries and of their Retail and Real Estate Operations at February 2, 1974 and February 3, 1973 and the results of their operations, changes in shareholders' investment and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis; and, as to the Retail and Real Estate Operations, in conformity with the accounting practices described in the Summary of Accounting Policies set forth in the financial statements applied on a consistent basis.

Ernst & Ernst

Ernst & Ernst
Minneapolis, Minnesota
March 22, 1974

Ten Year Comparisons
Dayton Hudson Corporation and Subsidiaries

TOTAL REVENUES (millions)
EARNINGS BEFORE INCOME TAXES AND EXTRAORDINARY ITEMS (millions)
INCOME TAXES — Federal, state and local (millions)
EARNINGS BEFORE EXTRAORDINARY ITEMS (millions)
NET EARNINGS (millions)
DEPRECIATION AND AMORTIZATION (millions)
RETURN ON BEGINNING SHAREHOLDERS' EQUITY
PER COMMON SHARE
— Net earnings before extraordinary items
— Net earnings
— Cash dividend[a]
— Book value
CAPITAL EXPENDITURES (millions)
YEAR END FINANCIAL POSITION (millions)
Working capital
Property and equipment, net of depreciation:
Retail
Real Estate
Total
Long term debt:
Retail
Real Estate
Total
Shareholders' equity
AVERAGE COMMON SHARES OUTSTANDING (thousands)

The Ten Year Comparisons should be read in conjunction with the Financial Review and Financial Statements.

[a]On a historical basis after giving retroactive effect to stock splits.

1973	1972	1971	1970	1969	1968	1967	1966	1965	1964
$1,407.3	$1,297.4	$1,120.8	$ 971.3	$ 890.2	$ 813.4	$ 728.4	$ 666.3	$ 602.7	$ 531.2
$ 53.3	54.6	45.7	37.6	48.1	51.0	46.6	44.6	46.0	37.1
$ 26.0	26.4	21.0	18.6	24.4	26.4	22.0	20.7	22.1	17.8
$ 27.3	28.2	24.7	19.0	23.7	24.6	24.6	23.9	23.9	19.3
$ 27.3	27.5	24.7	19.0	23.7	24.6	24.6	23.9	23.9	19.3
$ 25.3	24.4	22.6	19.7	16.2	14.0	13.0	12.3	11.0	10.1
8.4%	9.2%	8.6%	7.0%	9.3%	10.3%	11.6%	12.4%	13.8%	12.4%
$ 1.70	1.74	1.52	1.16	1.49	1.54	1.58	1.58	1.54	1.23
$ 1.70	1.70	1.52	1.16	1.49	1.54	1.58	1.58	1.54	1.23
$ .54	.52	.50	.50	.50	.40	.16	.07	.01	—
$ 21.10	19.88	18.70	17.69	16.84	15.94	14.86	13.47	11.89	10.36
$ 55.8	36.9	33.3	56.8	92.8	52.9	32.5	29.3	23.8	21.2
$ 229.5	226.3	175.7	159.2	148.8	135.0	134.8	126.7	118.7	92.8
$ 259.0	248.5	243.8	234.7	206.7	159.5	123.6	109.4	98.7	90.7
$ 122.9	112.6	110.7	113.4	105.8	79.2	78.5	79.9	75.1	71.5
$ 381.9	361.1	354.5	348.1	312.5	238.7	202.1	189.3	173.8	162.2
$ 164.0	176.4	153.0	146.5	124.4	80.4	51.0	52.8	44.1	43.3
$ 104.8	82.6	74.2	76.1	69.3	38.4	47.3	51.5	53.8	37.7
$ 268.8	259.0	227.2	222.6	193.7	118.8	98.3	104.3	97.9	81.0
$ 340.5	324.7	305.8	289.6	269.7	255.8	237.7	211.5	193.5	173.0
15,890	16,017	16,017	16,020	15,814	15,850	15,262	14,582	14,894	14,875

Five Year Comparisons

Dayton Hudson Corporation and Subsidiaries

RETAIL

	1973	1972[1]	1971	1970	1969
DEPARTMENT STORES					
Sales (millions)	$ 793.5	$ 732.9	$ 674.2	$ 602.3	$ 608.2
Earnings before allocated interest and income taxes (millions)	$ 50.3	$ 47.2	$ 35.6	$ 35.4	$ 42.7
Percent to sales	6.3%	6.4%	5.3%	5.9%	7.0%
Allocated interest (millions)	$ 8.3	$ 8.0	$ 8.1	$ 7.9	$ 5.3
Earnings before income taxes (millions)	$ 42.0	$ 39.2	$ 27.5	$ 27.5	$ 37.4
Percent to sales	5.3%	5.3%	4.1%	4.6%	6.1%
Number of stores	34	31	30	26	23
Total square feet (thousands)	9,437	9,181	9,294	8,683	8,032
Sales per square foot	$ 84.08	$ 79.83	$ 72.54	$ 69.37	$ 75.72
LOW MARGIN STORES					
Sales (millions)	$ 470.3	$ 440.4	$ 345.8	$ 289.0	$ 233.5
Earnings before allocated interest and income taxes (millions)	$ 10.8	$ 13.3	$ 17.3	$ 12.8	$ 10.9
Percent to sales	2.3%	3.0%	5.0%	4.4%	4.7%
Allocated interest (millions)	$ 4.2	$ 4.1	$ 3.6	$ 4.0	$ 3.1
Earnings before income taxes (millions)	$ 6.6	$ 9.2	$ 13.7	$ 8.8	$ 7.8
Percent to sales	1.4%	2.1%	4.0%	3.0%	3.3%
Number of stores	50	50	34	27	19
Total square feet (thousands)	5,563	5,518	4,220	3,516	2,390
Sales per square foot	$ 84.54	$ 79.81	$ 81.94	$ 82.18	$ 97.70
SPECIALTY STORES					
Sales (millions)	$ 105.7	$ 89.5	$ 68.3	$ 55.6	$ 27.1
Earnings before allocated interest and income taxes (millions)	$ 2.5	$ 2.1	$ 1.9	$ .8	$ .3
Percent to sales	2.3%	2.3%	2.8%	1.4%	1.1%
Allocated interest (millions)	$ .9	$ .8	$ .8	$ .7	$ .5
Earnings before income taxes (millions)	$ 1.6	$ 1.3	$ 1.1	$ .1	$ (.2)
Percent to sales	1.5%	1.5%	1.6%	.2%	(.7)%
Number of stores	179	130	95	72	52
Total square feet (thousands)	802	627	516	431	313
Sales per square foot	$ 131.80	$ 142.74	$ 132.36	$129.00	$ 86.58
TOTAL RETAIL					
Sales (millions)	$1,369.5	$1,262.8	$1,088.3	$ 946.9	$ 868.8
Earnings before allocated interest and income taxes (millions)	$ 63.6	$ 62.6	$ 54.8	$ 49.0	$ 53.9
Percent to sales	4.6%	5.0%	5.0%	5.2%	6.2%
Interest allocated to retail (millions)	$ 13.4	$ 12.9	$ 12.5	$ 12.6	$ 8.9
Earnings before income taxes (millions)	$ 50.2	$ 49.7	$ 42.3	$ 36.4	$ 45.0
Percent to sales	3.7%	3.9%	3.9%	3.8%	5.2%
Net earnings (millions)	$ 25.2	$ 25.3	$ 22.6	$ 17.5	$ 21.8
Percent to sales	1.8%	2.0%	2.1%	1.8%	2.5%
Funds provided by operations before changes in long term debt	$ 47.6	$ 47.5	$ 42.9	$ 36.3	$ 37.3
Number of stores	263	211	159	125	94
Total square feet (thousands)	15,802	15,326	14,030	12,630	10,735
Sales per square foot	$ 86.67	$ 82.40	$ 77.57	$ 74.98	$ 80.93
Capital expenditures (millions)	$ 33.3	$ 27.0	$ 26.9	$ 42.8	$ 60.9

[1] All earnings data for 1972 are exclusive of extraordinary items.

REAL ESTATE

OPERATING PROPERTIES	1973	1972	1971	1970	1969
Rental revenue (millions)	$ 26.5	$ 24.3	$ 22.8	$ 18.5	$ 14.8
Operating income (earnings before depreciation, interest and income taxes) (millions)	$ 15.0	$ 13.2	$ 10.6	$ 7.5	$ 6.5
Interest expense (millions)	$ 5.9	$ 4.7	$ 4.8	$ 3.9	$ 2.9
Earnings before income taxes (millions)	$ 4.6	$ 3.8	$ 1.1	$ (.1)	$ .4
Gross leasable square feet (thousands)	3,649	3,350	3,468	3,298	2,467

LAND HOLDING					
Real estate sales (millions)	$ 11.2	$ 10.3	$ 9.6	$ 5.9	$ 6.6
Interest expense (millions)	$ .5	$ .3	$ .5	$ .8	$ .6
Earnings before income taxes (millions)	$ 1.5	$ 3.1	$ 3.2	$ 2.0	$ 3.5
Undeveloped land at year end (acres)	2,976	2,559	2,274	1,878	1,841

DEVELOPMENT EXPENSE					
Development expense, excluding interest (millions)	$ 2.2	$ 1.8	$ .8	$ .4	$ .7
Interest expense (millions)	$ .8	$ .2	$ .1	$ .2	$ .2
Total development expense (millions)	$ 3.0	$ 2.0	$ .9	$ .6	$ .9

TOTAL REAL ESTATE					
Revenues (millions)	$ 37.7	$ 34.6	$ 32.4	$ 24.4	$ 21.4
Earnings before income taxes (millions)	$ 3.1	$ 4.9	$ 3.4	$ 1.3	$ 3.0
Net earnings (millions)	$ 2.1	$ 2.9	$ 2.0	$ 1.5[a]	$ 1.8
Funds provided by operations before changes in long term debt (millions)	$ 8.2	$ 8.1	$ 8.4	$ 6.2	$ 6.1
Capital expenditures (millions)	$ 22.5	$ 9.9	$ 6.3	$ 13.9	$ 31.8

[a]Net earnings in 1970 were in excess of earnings before income taxes due to operating loss tax benefits at regular tax rates coupled with capital gains tax on real estate sales.

The Five Year Comparisons should be read in conjunction with the Financial Review and Financial Statements.

DEPARTMENT STORES

Hudson's *(1881)**
Joseph L. Hudson, Jr., Chairman
Edwin G. Roberts, President

Store	Total Sq. Ft. (000)	Date Opened
Downtown Detroit, Mich.	1,720	1891
Northland Center, Southfield, Mich.	614	1954
Eastland Center, Harper Woods, Mich.	491	1957
Warehouse Store, Dearborn, Mich.	61	1959
Pontiac Mall, Pontiac, Mich.	283	1962
Budget Store, Dearborn, Mich.	88	1963
Westland Center, Westland, Mich.	355	1965
Oakland Mall Center, Troy, Mich.	370	1968
Genesee Valley Center, Flint, Mich.	268	1970
Southland Center, Taylor, Mich.	292	1970
Franklin Park Mall, Toledo, Ohio	187	1971
	4,729	

Dayton's *(1902)**
Carl R. Erickson, President

Store	Total Sq. Ft. (000)	Date Opened
Downtown Minneapolis, Minn.	1,387	1902
Southdale Center, Edina, Minn.	349	1956
Downtown St. Paul, Minn.	383	1963
Brookdale Center, Brooklyn Center, Minn.	241	1966
Rosedale Center, Roseville, Minn.	192	1969
Apache Mall, Rochester, Minn.	155	1972
West Acres Center, Fargo, N.D.	115	1973
	2,822	

Diamond's *(1891)**
W. Wallace Barrett, President

Store	Total Sq. Ft. (000)	Date Opened
Park Central Center, Phoenix, Ariz.	165	1957
Thomas Mall Center, Phoenix, Ariz.	190	1963
Tri-City Mall, Mesa, Ariz.	138	1969
Las Vegas (Ronzone's), Nev.	41	1970
MetroCenter, Phoenix, Ariz.	181	1973
	715	

Lipman's *(1850)**
Edward F. Finn, President

Store	Total Sq. Ft. (000)	Date Opened
Downtown Portland, Ore.	254	1912
Salem, Ore.	75	1954
Eastport Plaza, Portland, Ore.	85	1960
Corvallis, Ore.	42	1964
Lloyd Center, Portland, Ore.	50	1972
Washington Square, Portland, Ore.	112	1973
	618	

John A. Brown *(1915)**
James W. Sherburne, President

Store	Total Sq. Ft. (000)	Date Opened
Downtown Oklahoma City, Okla.	284	1915
Capitol Hill, Oklahoma City, Okla.	66	1948
Norman, Okla.	4	1949
Penn Square, Oklahoma City, Okla.	127	1960
Utica Square, Tulsa, Okla.	72	1971
	553	

LOW MARGIN STORES

Target *(1961)**
Stephen L. Pistner, President

Store	Total Sq. Ft. (000)	Date Opened
Roseville, Minn.	68	1962
Crystal, Minn.	96	1962
Duluth, Minn.	96	1962
Knollwood, St. Louis Park, Minn.	106	1962
Bloomington, Minn.	118	1965
Glendale Center, Denver, Colo.	119	1966
Westland Center, Sunset Park, Colo.	119	1966
West St. Paul, Minn.	117	1967
Fridley, Minn.	117	1967
North County, St. Louis, Mo.	118	1968
South County, St. Louis, Mo.	118	1968
Bridgeton, Mo.	118	1969
North Dallas, Tex.	129	1969
Garland, Tex.	129	1969
Colorado Springs, Colo.	129	1969
Hedwig Village, Houston, Tex.	129	1969
South Loop, Houston, Tex.	129	1969
Sharpstown, Houston, Tex.	129	1970
Tulsa, Okla.	126	1970
Almeda, Houston, Tex.	126	1970
University City, Mo.	126	1970
Village Fair Center, Dallas, Tex.	126	1970
Greenfield, Wis.	126	1970
Wauwatosa, Wis.	126	1970
North St. Paul, Minn.	111	1971
Ballwin, Mo.	111	1971
Arlington, Tex.	111	1971
North Des Moines, Iowa	125	1971
South Des Moines, Iowa	90	1971
Mason City, Iowa	50	1972
Ames, Iowa	45	1972
Cedar Rapids, Iowa	80	1972
Fort Dodge, Iowa	61	1972
Ottumwa, Iowa	50	1972
Omaha, Neb.	120	1972
Clinton, Iowa	60	1972
Thornton, Colo.	87	1972
South Denver, Colo.	87	1972
Oklahoma City (North), Okla.	115	1972
Oklahoma City (South), Okla.	115	1972
Midwest City, Okla.	90	1972
Norman, Okla.	91	1972
Bettendorf, Iowa	80	1972
Moline, Ill.	80	1972
Coon Rapids, Minn.	87	1972
Southdale, Edina, Minn.	104	1973
	4,790	

Lechmere *(1911)**
Norman D. Cohen, President

Store	Total Sq. Ft. (000)	Date Opened
Cambridge, Mass.	233	1956
Dedham, Mass.	194	1965
Liberty Tree Mall, Danvers, Mass.	197	1970
Springfield, Mass.	149	1971
	773	

SPECIALTY STORES

Dayton Hudson Jewelers *(1967)**
Joseph J. Freedman, President

J. E. Caldwell *(1839)**

Store	Total Sq. Ft. (000)	Date Opened
Downtown Philadelphia, Pa.	35	1916
Wilmington, Del.	2	1953
Haverford, Pa.	6	1954
Moorestown, N.J.	4	1965
Plymouth Meeting, Pa.	4	1966
Harrisburg, Pa.	5	1970
	56	

J. B. Hudson *(1885)**

Store	Total Sq. Ft. (000)	Date Opened
Downtown Minneapolis, Minn.	10	1929
Southdale Center, Edina, Minn.	5	1956
Downtown St. Paul, Minn.	5	1963
Brookdale Center, Brooklyn Center, Minn.	3	1966
Rosedale Center, Roseville, Minn.	4	1969
Omaha, Neb.	4	1970
	31	

J. Jessop & Sons *(1860)**

Store	Total Sq. Ft. (000)	Date Opened
Downtown San Diego, Calif.	12	1893
La Jolla, Calif.	4	1949
Chula Vista, Calif.	3	1956
Mission Valley Center, San Diego, Calif.	4	1961
La Mesa, Calif.	4	1961
Escondido, Calif.	4	1964
College Grove Center, San Diego, Calif.	4	1968
	35	

C. D. Peacock *(1837)**

Store	Total Sq. Ft. (000)	Date Opened
Downtown Chicago, Ill.	23	1927
Glencoe, Ill.	6	1955
Skokie, Ill.	5	1957
Oakbrook, Ill.	8	1962
Calumet City, Ill.	9	1967
Schaumburg, Ill.	4	1971
Vernon Hills, Ill.	4	1973
	59	

Shreve's *(1852)**

Store	Total Sq. Ft. (000)	Date Opened
Downtown San Francisco, Calif.	20	1906
Palo Alto, Calif.	4	1968
San Mateo, Calif.	5	1969
San Jose, Calif.	4	1971
Walnut Creek, Calif.	3	1971
	36	

Charles W. Warren *(1902)**

Store	Total Sq. Ft. (000)	Date Opened
Somerset Mall, Troy, Mich.	7	1969
Northland Center, Southfield, Mich.	6	1969
Franklin Park Mall, Toledo, Ohio	5	1971
	18	

*Year founded.

	Number of Stores	Total Sq. Ft. (000)
Dayton Hudson Booksellers *(1968)**		
Bruce G. Allbright, President		
B. Dalton, Bookseller *(1966)**		
Arizona	3	
California	17	
Colorado	1	
Florida	1	
Georgia	2	
Idaho	1	
Illinois	5	
Indiana	4	
Iowa	1	
Kansas	1	
Kentucky	1	
Maryland	1	
Michigan	5	
Minnesota	7	
Missouri	4	
Nebraska	1	
Nevada	1	
New Jersey	2	
New Mexico	1	
New York	3	
North Carolina	2	
North Dakota	1	
Ohio	6	
Oklahoma	2	
Oregon	2	
Pennsylvania	2	
South Carolina	1	
South Dakota	1	
Tennessee	1	
Texas	10	
Virginia	1	
Washington	2	
Wisconsin	3	
	96	
Pickwick Bookshops *(1938)**		
California	25	
	121	500
Team Central *(1946)**		
Paul D. Hagstrum, President		
Colorado	1	
Illinois	2	
Indiana	2	
Iowa	1	
Michigan	1	
Minnesota	3	
Missouri	4	
Nebraska	3	
Oklahoma	4	
Wisconsin	3	
Total company owned stores	24	67
(Franchised and partially owned)	83	

REAL ESTATE

Dayton Hudson Properties Robert J. Crabb, President	Total Sq. Ft. (000)	Date Opened
Shopping Centers		
Northland, Southfield, Mich.	1,293	1954
Southdale, Edina, Minn.	1,109	1956
Eastland, Harper Woods, Mich.	946	1957
Brookdale, Brooklyn Center, Minn.	872	1962
Westland, Westland, Mich.	643	1965
Rosedale, Roseville, Minn.	573	1969
Southland, Taylor, Mich.	544	1970
Genesee Valley, Flint, Mich.	834	1970
	6,814**	
Commercial, Office, Other		
Southdale Medical Building, Edina, Minn.	160	1958
Eastland Professional Building, Harper Woods, Mich.	46	1960
Nine Mile Medical Building, Southfield, Mich.	49	1967
Southdale Office Centre, Edina, Minn.	215	1968
Eastland Apartments, Harper Woods, Mich.	86	1969
Tower 14, Southfield, Mich.	228	1973
Other	74	
	858**	

Undeveloped Land	Acres
Twin Cities	1,657
Detroit	1,290
Las Vegas	22
Other	7
	2,976

**Gross leasable area including department store space owned by Dayton Hudson and other retailers. Excludes joint ventures (not managed by Dayton Hudson Properties).

Dayton
Hudson
Corporation

DIRECTORS

William A. Andres, Executive Vice President-Retail Operations
Maurice M. Cohen, Retired Chairman, Lechmere
Bruce B. Dayton, Chairman of the Board
Donald C. Dayton, Retired Chairman of the Board
*__Douglas J. Dayton__, Chairman, Dade, Inc.
K. N. Dayton, President and Chief Executive Officer
Wallace C. Dayton, Conservationist
Joseph L. Hudson, Jr., Vice Chairman of the Board
Stephen F. Keating, President, Honeywell Inc.
*__David M. Lilly__, Chairman of the Board, The Toro Company
Philip H. Nason, Chairman of the Board, The First National Bank of Saint Paul
*__William E. Roberts__, Retired Chairman, Lipman's
William H. Spoor, Chairman of the Board, The Pillsbury Company
Paul N. Ylvisaker, Dean of the Graduate School of Education, Harvard University

*Audit Committee

OFFICERS

Bruce B. Dayton, Chairman of the Board
K. N. Dayton, President and Chief Executive Officer
Joseph L. Hudson, Jr., Vice Chairman of the Board
William A. Andres, Executive Vice President-Retail Operations
Robert J. Crabb, Senior Vice President
Carl R. Erickson, Senior Vice President
Stephen L. Pistner, Senior Vice President
Richard L. Schall, Senior Vice President-Lechmere and Specialty Stores
Wayne E. Thompson, Senior Vice President-Environmental Development
Gerald R. Dirks, Vice President-Investments and Financial Relations
Glenn E. Johnson, Vice President-Western Department Stores Group
Reid Johnson, Vice President-Controller
Allan L. Pennington, Vice President-Corporate Development
Albert B. Perlin, Vice President, General Counsel and Secretary
James M. Shipton, Vice President-Personnel and Communications
Willard C. Shull III, Treasurer
J. R. A. Boline, Assistant Treasurer
Peter Corcoran, Assistant Treasurer
William E. Harder, Assistant Secretary

CORPORATE OFFICES

777 Nicollet Mall, Minneapolis, Minnesota 55402
Telephone: (612) 370-6948

TRANSFER AGENTS

Northwestern National Bank of Minneapolis
First National City Bank, New York City

REGISTRARS

First National Bank of Minneapolis
The Chase Manhattan Bank, N. A., New York City

SHARES LISTED

New York Stock Exchange
Symbol: DH

10-K REPORT

A copy of the Form 10-K annual report filed with the Securities and Exchange Commission for Dayton Hudson's fiscal year ended February 2, 1974, is available to shareholders on request. Write to Manager, Shareholder Relations.

ANNUAL MEETING

The Annual Meeting of Shareholders will be held at 10 a.m. Wednesday, May 22, 1974, in the IDS Theatre, on the concourse level of the IDS Center, 80 South Eighth Street, Minneapolis, Minnesota.

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Dayton Hudson Corporation
777 Nicollet Mall
Minneapolis, Minnesota
55402

MINNEAPOLIS, MINN.

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